

LAKEWOOD CITY ACADEMY
(A Component Unit of Lakewood City School District)
CUYAHOGA COUNTY, OHIO

AUDIT REPORT

FOR THE FISCAL YEAR
ENDED JUNE 30, 2016

James G. Zupka, CPA, Inc.
Certified Public Accountants



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Lakewood City Academy, Cuyahoga County, prepared by James G. Zupka, CPA, Inc., for the audit period July 1, 2015 through June 30, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Lakewood City Academy is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

February 6, 2017

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LAKWOOD CITY ACADEMY
(A Component Unit of Lakewood City School District)
CUYAHOGA COUNTY, OHIO
AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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JAMES G. ZUPKA, C.P.A., INC.

Certified Public Accountants

5240 East 98th Street

Garfield Hts., Ohio 44125

Member American Institute of Certified Public Accountants

(216) 475 - 6136

Ohio Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Lakewood City Academy
Lakewood, Ohio

The Honorable Dave Yost
Auditor of State
State of Ohio

Report on the Financial Statements

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 and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 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 Academy'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 Academy'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 Lakewood City Academy, Cuyahoga County, Ohio, as of June 30, 2016, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2016, on our consideration of the Lakewood City Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion 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 Lakewood City Academy's internal control over financial reporting and compliance.

James G. Zupka
CPA, President

Digitally signed by James G. Zupka, CPA,
President
DN: cn=James G. Zupka, CPA, President,
o=James G. Zupka, CPA, Inc., ou=Accounting,
email=jgzcpa@sbjglobal.net, c=US
Date: 2017.01.27 08:31:06 -05'00'

James G. Zupka, CPA, Inc.
Certified Public Accountants

December 16, 2016

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LAKWOOD CITY ACADEMY
(A Component Unit of Lakewood City School District)
CUYAHOGA COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

The management's 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 fiscal year ended June 30, 2016. 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.

Financial Highlights

Key financial highlights for fiscal year 2016 are as follows:

- In total, net position was \$589,598 at June 30, 2016.
- The Academy had operating revenues of \$981,421, operating expenses of \$1,100,075 and non-operating revenues of \$132,890 for fiscal year 2016. Total change in net position for the fiscal year was an increase of \$14,236.

Using these Basic Financial Statements

This annual report consists of management's discussion and analysis, the basic financial statements and the 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's Financial Activities

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

The statement of net position and the statement of revenues, expenses and changes in net position answer the question, "How did we do financially during 2016?" These statements include *all assets, all deferred outflows of resources, liabilities, all deferred inflows of resources, 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 net 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 meets the cash flow needs of its operations. The statement of cash flows can be found on page 11 of this report.

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes to the basic financial statements can be found on pages 13-19 of this report.

LAKWOOD CITY ACADEMY
(A Component Unit of Lakewood City School District)
CUYAHOGA COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

The table below provides a summary of the Academy's net position at June 30, 2016 and June 30, 2015.

	Net Position	
	<u>2016</u>	<u>2015</u>
<u>Assets</u>		
Current assets	\$ 560,090	\$ 554,235
Capital assets, net	<u>29,597</u>	<u>37,433</u>
Total assets	<u>589,687</u>	<u>591,668</u>
<u>Liabilities</u>		
Current liabilities	<u>89</u>	<u>16,306</u>
Total liabilities	<u>89</u>	<u>16,306</u>
<u>Net Position</u>		
Investment in capital assets	29,597	37,433
Restricted	2,418	497
Unrestricted	<u>557,583</u>	<u>537,432</u>
Total net position	<u>\$ 589,598</u>	<u>\$ 575,362</u>

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2016, the Academy's net position totaled \$589,598.

At year-end, capital assets represented 5.02% 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
(A Component Unit of Lakewood City School District)
CUYAHOGA COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

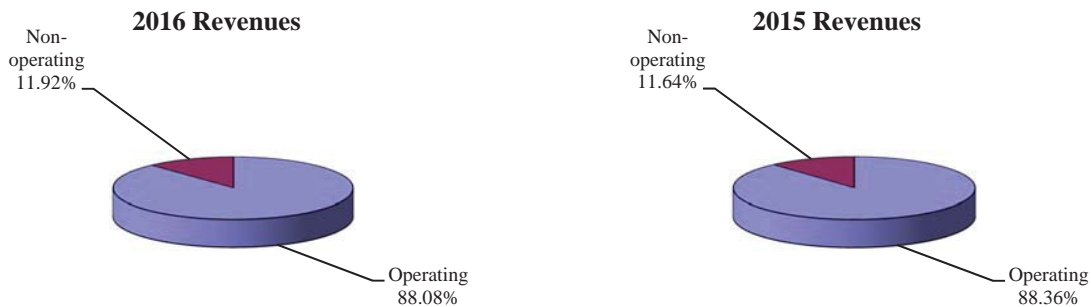
The table below shows the changes in net position for fiscal year 2016 and 2015.

Change in Net Position

	2016	2015
<u>Operating Revenues:</u>		
State foundation	\$ 979,111	\$ 1,033,462
Tuition and fees	364	78
Sales/charges for services	121	50
Other	1,825	4,655
Total operating revenues	981,421	1,038,245
<u>Operating Expenses:</u>		
Purchased services	1,049,479	1,053,290
Materials and supplies	33,860	27,553
Other	8,900	9,901
Depreciation	7,836	18,455
Total operating expenses	1,100,075	1,109,199
<u>Non-operating Revenues:</u>		
Federal and State grants	132,869	135,906
Interest income	21	804
Total non-operating revenues	132,890	136,710
Change in net position	14,236	65,756
Net position at beginning of year	575,362	509,606
Net position at end of year	\$ 589,598	\$ 575,362

Operating revenues of the Academy decreased by \$56,824 or 5.47%. This decrease is the result of less State foundation funding related to 23 less students served by the Academy. Operating expenses decreased \$9,124 or 0.82% due mainly to a decrease in professional and technical purchase services and depreciation expense. The decreased in professional and technical purchase services is due to more payments made to Lakewood City School District. Federal and State grants decreased due to a decrease in Title VI-B and Title I funding.

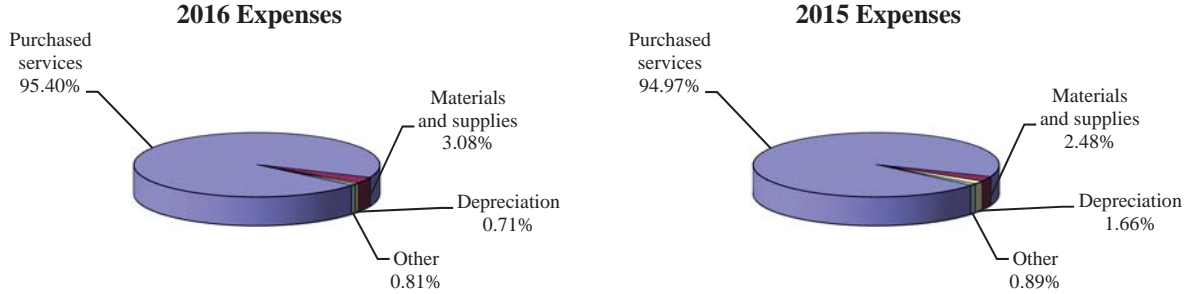
The chart below illustrates the revenues for the Academy during fiscal years 2016 and 2015.



LAKEWOOD CITY ACADEMY
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

The chart below illustrates the expenses for the Academy during fiscal years 2016 and 2015.



Capital Assets

At June 30, 2016, the Academy had \$29,597 invested in furniture and computer equipment. The decrease in capital assets is due to current year depreciation of \$7,836. See Note 4 to the basic financial statements for more detail on capital assets.

Capital Assets at June 30
(Net of Depreciation)

	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
Furniture and equipment	<u>\$ 29,597</u>	<u>\$ 37,433</u>

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 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 Kent Zeman, Treasurer, Lakewood City Academy, 1470 Warren Road, Lakewood, Ohio 44107.

LAKWOOD CITY ACADEMY
(A Component Unit of Lakewood City School District)
CUYAHOGA COUNTY, OHIO

STATEMENT OF NET POSITION
JUNE 30, 2016

Assets:	
<u>Current assets:</u>	
Equity in pooled cash and cash equivalents	\$ 555,790
Receivables:	
Intergovernmental.	4,300
Total current assets	560,090
<u>Non-current assets:</u>	
Depreciable capital assets, net	29,597
Total non-current assets.	29,597
Total assets.	589,687
 Liabilities:	
<u>Current liabilities:</u>	
Accounts payable.	89
Total liabilities	89
 Net position:	
Investment in capital assets.	29,597
Restricted for:	
Public school support	369
State programs.	1,800
Other purposes.	249
Unrestricted.	557,583
Total net position.	\$ 589,598

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

LAKWOOD CITY ACADEMY
(A Component Unit of Lakewood City School District)
CUYAHOGA COUNTY, OHIO

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Operating revenues:	
Foundation revenue	\$ 979,111
Tuition and fees.	364
Sales/charges for services.	121
Other	1,825
Total operating revenues	<u>981,421</u>
Operating expenses:	
Purchased services.	1,049,479
Materials and supplies	33,860
Other.	8,900
Depreciation	7,836
Total operating expenses.	<u>1,100,075</u>
Operating loss.	<u>(118,654)</u>
Non-operating revenues:	
Federal and state grants	132,869
Interest revenue	21
Total nonoperating revenues	<u>132,890</u>
Change in net position	14,236
Net position at beginning of year.	<u>575,362</u>
Net position at end of year	<u><u>\$ 589,598</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

LAKWOOD CITY ACADEMY
(A Component Unit of Lakewood City School District)
CUYAHOGA COUNTY, OHIO

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Cash flows from operating activities:	
Cash received from State foundation	\$ 960,169
Cash received from tuition and fees	364
Cash received from sales/charges for services.	121
Cash received from other operations	1,825
Cash payments for contractual services	(1,051,047)
Cash payments for materials and supplies	(33,883)
Cash payments for other expenses	(8,884)
	<hr/>
Net cash used in operating activities	(131,335)
	<hr/>
Cash flows from noncapital financing activities:	
Federal and State grants	132,869
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Net cash provided by noncapital financing activities.	132,869
	<hr/>
Cash flows from investing activities:	
Interest received	21
	<hr/>
Net cash provided by investing activities	21
	<hr/>
Net increase in cash and cash equivalents	1,555
Cash and cash equivalents at beginning of year	554,235
Cash and cash equivalents at end of year	\$ 555,790
	<hr/> <hr/>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (118,654)
Adjustments:	
Depreciation	7,836
Changes in assets and liabilities:	
Intergovernmental receivable	(4,300)
Accounts payable.	(746)
Intergovernmental payable	(15,471)
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Net cash used in operating activities	\$ (131,335)
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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LAKWOOD CITY ACADEMY
(A Component Unit of Lakewood City School District)
CUYAHOGA COUNTY, OHIO

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - DESCRIPTION OF THE ACADEMY

The Lakewood City 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 as amended by GASB Statement No. 39 and GASB Statement No. 61.

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 Meta Solutions (formally 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 agreement was extended for fiscal years 2012-2014. An additional agreement was signed in fiscal year 2015 for 5 years concluding in fiscal year 2019. 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 Governing Authority is composed of five Lakewood residents. The Directors are selected and appointed by the Lakewood City School District Board of Education. 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 can be found in Note 6. The Academy provides services to 140 students.

The Governing Authority has entered into a one-year contract with Meta Solutions to provide planning, instructional, administrative and technical services required for the operation of the Academy (See Note 8).

LAKWOOD CITY ACADEMY
(A Component Unit of Lakewood City School District)
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NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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's significant accounting policies are described below.

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. 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

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets, all deferred outflows of resources, all liabilities and all deferred inflows of resources are included on the statement of net position. The difference between total assets plus deferred outflows of resources and liabilities plus deferred inflows of resources is defined as net position. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total net position.

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 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.

Expenses are recognized at the time that they are incurred.

LAKWOOD CITY ACADEMY
(A Component Unit of Lakewood City School District)
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NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

D. Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets, the statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. At June 30, 2016, there were no deferred outflows of resources.

In addition to liabilities, the statement of net position will 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. At June 30, 2016, there were no deferred inflows of resources.

E. 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.

F. Cash

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

G. Capital Assets and Depreciation

All capital assets are capitalized at cost and updated for additions and disposals 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 5-20 years.

H. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. The net position component "investment in capital assets," consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its 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 first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

LAKWOOD CITY ACADEMY
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CUYAHOGA COUNTY, OHIO

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

I. Intergovernmental Revenue

The Academy currently participates in the State foundation program through the Ohio Department of Education, the State of Ohio Network Connectivity grant, the Federal IDEA Part B grant, the Federal Title I-Targeted Assistance grant and the Federal Title II-A Improving Teacher Quality 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 fiscal year 2016 was \$132,869.

J. 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.

K. 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, 2016, the carrying amount of the Academy's deposits was \$555,790. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2016, \$305,790 of the Academy's bank balance of \$555,790 was exposed to custodial risk as discussed below, while \$250,000 was covered by the Federal Deposit Insurance Corporation (the "FDIC").

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. The Academy has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Academy to a successful claim by the FDIC.

LAKEWOOD CITY ACADEMY
(A Component Unit of Lakewood City School District)
CUYAHOGA COUNTY, OHIO

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year 2016 was as follows:

	Balance <u>June 30, 2015</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>June 30, 2016</u>
Furniture and equipment	\$ 217,290	\$ -	\$ -	\$ 217,290
Less: accumulated depreciation	<u>(179,857)</u>	<u>(7,836)</u>	<u>-</u>	<u>(187,693)</u>
Capital assets, net	<u>\$ 37,433</u>	<u>\$ (7,836)</u>	<u>\$ -</u>	<u>\$ 29,597</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 2016, 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 \$20,000.

NOTE 6 - PURCHASED SERVICES

For the fiscal year 2016 purchased services expenses were as follows:

Professional and technical services	\$ 1,022,918
Property services	24,000
Travel mileage/meeting	546
Contracted craftor trade	<u>2,015</u>
Total	<u>\$ 1,049,479</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, 2016.

B. Litigation

The Academy is not involved in any litigation that, in the opinion of management, would have a material effect of the financial statements.

LAKWOOD CITY ACADEMY
(A Component Unit of Lakewood City School District)
CUYAHOGA COUNTY, OHIO

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 7 - CONTINGENCIES - (Continued)

C. State Foundation Funding

The Ohio Department of Education (ODE) 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. As a result of the review after fiscal year end, ODE owes \$4,283 to the Academy for fiscal year 2016 and \$17 for fiscal year 2015. These amount are reflected as an intergovernmental receivables on the basic financial statements. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2016 foundation funding for the Academy; therefore, the final financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the Academy. The final adjustment to state funding is expected to be immaterial.

NOTE 8 - SERVICE AGREEMENTS

A. Meta Solutions

The Academy entered into an agreement on January 31, 2013, with Meta Solutions (formally Tri-Rivers Educational Computer Association (“TRECA”)) for planning, instructional, administrative and technical services required for the operation of the Academy. During the fiscal year 2016, the Academy paid Meta Solutions \$18,002 for services under the agreement. Under the contract, Meta Solutions 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 services to the Academy on behalf of Meta Solutions. Also, all personnel shall possess any certification or licensure which may be required by law.
3. Curricular services limited to standardized curriculum developed by Meta Solutions.

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

- a. \$3,000 per student for the instructional services comprehensive service package
- b. \$80 per course, one-time set up fee of \$300 and \$300 annual support fee for HQT Plato Service Package
- c. \$45 per course; one-time set up fee of \$300; and \$300 annual support fee for Plato Curriculum Service package
- d. \$100 per student license; one-time set up fee of \$300; and \$300 annual support fee for Compass Curriculum Service Package
- e. \$250 per semester course per student for K-6 and 7-12 Credit Service Package
- f. \$350 per account for SIS User Account License

LAKWOOD CITY ACADEMY
(A Component Unit of Lakewood City School District)
CUYAHOGA COUNTY, OHIO

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 8 - SERVICE AGREEMENTS - (Continued)

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 City School District during the fiscal year 2016. 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 City School District. The Academy paid Lakewood City School District \$966,132 during the fiscal year 2016 for services rendered under the Community School Sponsorship Contract and the annual Purchased Services Contract.

NOTE 9 - ACCOUNTABILITY AND COMPLIANCE

Change in Accounting Principles

For fiscal year 2016, the Academy has implemented GASB Statement No. 72, "Fair Value Measurement and Application", GASB Statement No. 73 "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68", GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", and GASB Statement No. 79, "Certain External Investment Pools and Pool Participants".

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurement. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the Academy.

GASB Statement No. 73 improves the usefulness of information about pensions included in the general purposes external financial reports of state and local governments for making decisions and assessing accountability. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the Academy.

GASB Statement No. 76 identifies - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the Academy.

GASB Statement No. 79 establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the Academy.

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JAMES G. ZUPKA, C.P.A., INC.

Certified Public Accountants

5240 East 98th Street

Garfield Hts., Ohio 44125

Member American Institute of Certified Public Accountants

(216) 475 - 6136

Ohio Society of Certified Public Accountants

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Lakewood City Academy
Lakewood, Ohio

The Honorable Dave Yost
Auditor of State
State of Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Lakewood City Academy, Cuyahoga County, Ohio (the Academy), a component unit of the Lakewood City School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Lakewood City Academy's basic financial statements, and have issued our report thereon dated December 16, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Lakewood City Academy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lakewood City Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lakewood City Academy's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Lakewood City Academy's financial statements will not be prevented, or detected and corrected on a timely basis. *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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lakewood City Academy's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Lakewood City Academy's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Lakewood City Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

James G. Zupka,
CPA, President

Digitally signed by James G. Zupka, CPA,
President
DN: cn=James G. Zupka, CPA, President,
ou=James G. Zupka, CPA, Inc.,
ou=Accounting,
email=jgzcpa@sbcglobal.net, c=US
Date: 2017.01.27 08:31:24 -05'00'

James G. Zupka, CPA, Inc.
Certified Public Accountants

December 16, 2016

LAKWOOD CITY ACADEMY
(A Component Unit of Lakewood City School District)
CUYAHOGA COUNTY, OHIO
STATUS OF PRIOR FINDINGS AND RECOMMENDATIONS
JUNE 30, 2016

The audit report for the prior year ended June 30, 2015, contained no findings, citations, or management letter recommendations.

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Dave Yost • Auditor of State

LAKESIDE 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
FEBRUARY 16, 2017