



**AKRON COMMUNITY SCHOOL
SUMMIT COUNTY**

FINAL AUDIT

**FOR THE YEAR ENDED JUNE 30, 2005 AND
THE PERIOD ENDED FEBRUARY 28, 2006**



**Auditor of State
Betty Montgomery**

**AKRON COMMUNITY SCHOOL
SUMMIT COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Akron Community School
Summit County
1585 Frederick Boulevard
Akron, Ohio 44320

To the Board of Trustees:

We were engaged to audit the accompanying financial statements of Akron Community School, Summit County, Ohio, (the School) as of and for the year ended June 30, 2005 and the period ended February 28, 2006. These financial statements are the responsibility of the School's management.

Because of the inadequacies of the Schools financial report, notes, and significant audit adjustments made to the report, we were unable to form an opinion regarding the financial position of Akron Community School, Summit County, Ohio as of June 30, 2005 and February 28, 2006, and the changes in its financial position and its cash flows for the year and period then ended in conformity with accounting principles generally accepted in the United States of America.

During the course of the engagement we were required to make decisions that are normally decisions made by management which had a significant affect on the financial statements. *Government Auditing Standards* considers this type of service to impair the independence of the Auditor of State to audit the School.

Because of the significance of the matters discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, and Statement of Cash Flows.

As discussed in Note I and Note XI to the financial statements, the School's contract with their Sponsor, Lucas County Educational Service Center, expired on June 30, 2005 and was not renewed. The School suspended operations at the end of the 2004 fiscal year and was inactive during fiscal year 2005. The School officially closed on July 1, 2005 when they no longer had a sponsor.

This report is intended solely for the information and use of management and the Board of Trustees and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be used and should not be used by anyone other than these specific parties.

A handwritten signature in black ink that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

March 20, 2006

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Akron Community School
Statement of Net Assets
June 30, 2005
Unaudited

Assets

Current Assets:

Cash and Cash Equivalents	\$ 5,821
Receivables:	
Management Fee Receivable	10,548
Loan Receivable	<u>24,000</u>
Total Current Assets	<u>40,369</u>

Noncurrent Assets:

Capital Assets:

Depreciable Capital Assets, net	<u>55,542</u>
Total Assets	<u>95,911</u>

Liabilities

Current Liabilities:

Accounts Payable	410
Intergovernmental Payable	<u>33,411</u>
Total Liabilities	<u>33,821</u>

Net Assets

Invested In Capital Assets	55,542
Unrestricted	<u>6,548</u>
Total Net Assets	<u><u>\$ 62,090</u></u>

See accompanying notes to the basic financial statements

Akron Community School
Statement of Revenues,
Expenses and Changes in Fund Net Assets
For the Fiscal Year Ended June 30, 2005
Unaudited

<u>Operating Expenses</u>	
Depreciation	\$31,833
Other	<u>18</u>
Total Operating Expenses	<u>31,851</u>
Operating Loss	<u>(31,851)</u>
<u>Non-Operating Revenues</u>	
Interest Income	<u>36</u>
Change in Net Assets	(31,815)
Net Assets Beginning of Year	<u>93,905</u>
Net Assets End of Year	<u><u>\$62,090</u></u>

See accompanying notes to the basic financial statements

Akron Community School
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2005
Unaudited

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash Received from State	\$ 19,286
Other Cash Receipts	1,766
Cash Payments for Employee Benefits	(548)
Cash Payments for Goods and Services	<u>(26,018)</u>

Net Cash Used In Operating Activities (5,514)

Cash Flows from Noncapital Financing Activities

Reimbursements from Management Company	11,105
Operating Grants Received	6,953
Loan to Related Party	(25,000)
Loan Repayments from Related Party	<u>1,000</u>

Net Cash Used In Noncapital Financing Activities (5,942)

Cash Flows from Investing Activities

Interest on Investments	<u>36</u>
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Net Decrease in Cash and Cash Equivalents (11,420)

Cash and Cash Equivalents Beginning of Year 17,241

Cash and Cash Equivalents End of Year \$ 5,821

Reconciliation of Operating Loss to Net Cash
Used in Operating Activities

Operating Loss \$ (31,851)

Adjustments:

Depreciation 31,833

(Increase) Decrease in Assets:

Intergovernmental Receivable 1,766

Management Fee Receivable (548)

Increase (Decrease) in Liabilities:

Accounts Payable (26,000)

Intergovernmental Payable 19,286

Net Cash Used in Operating Activities \$ (5,514)

See accompanying notes to the basic financial statements

Akron Community School
Statement of Net Assets
February 28, 2006
Unaudited

Assets

Current Assets:

Cash and Cash Equivalents	\$600
Receivables:	
Management Fee Receivable	12,848
Loan Receivable	<u>24,000</u>
Total Current Assets	<u>37,448</u>

Noncurrent Assets:

Capital Assets:

Depreciable Capital Assets, net	<u>317</u>
Total Assets	<u>37,765</u>

Liabilities

Current Liabilities:

Accounts Payable	2,077
Intergovernmental Payable	<u>33,411</u>
Total Liabilities	<u>35,488</u>

Net Assets

Invested In Capital Assets	317
Unrestricted	<u>1,960</u>
Total Net Assets	<u><u>\$ 2,277</u></u>

See accompanying notes to the basic financial statements

Akron Community School
Statement of Revenues,
Expenses and Changes in Fund Net Assets
For the Period Ended February 28, 2006
Unaudited

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<u>Operating Expenses</u>	
Accounting and Legal Expense	\$4,667
Depreciation	33
Other	18
	<hr/>
Total Operating Expenses	4,718
	<hr/>
Operating Loss	(4,718)
	<hr/>
<u>Non-Operating Revenues (Expenses)</u>	
Other Non-Operating Revenue	92
Loss on Surrender of Capital Assets	(55,192)
Interest Income	5
	<hr/>
Total Non-Operating Revenues (Expenses)	(55,095)
	<hr/>
Change in Net Assets	(59,813)
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Net Assets Beginning of Year	62,090
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Net Assets End of Year	\$2,277
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See accompanying notes to the basic financial statements

Akron Community School
Statement of Cash Flows
For the Period Ended February 28, 2006
Unaudited

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash Payments for Goods and Services	\$	(5,318)
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Net cash used in operating activities		(5,318)
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Cash Flows from Noncapital Financing Activities

Other Non-Operating Revenue		92
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Cash Flows from Investing Activities

Interest on Investments		<u>5</u>
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Net Decrease in Cash and Cash Equivalents		(5,221)
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Cash and Cash Equivalents Beginning of Year		<u>5,821</u>
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Cash and Cash Equivalents End of Year		<u><u>600</u></u>
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Reconciliation of Operating Loss to Net Cash
Used In Operating Activities

Operating (Loss)		(4,718)
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Adjustments:

Depreciation		33
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Decrease in Assets:

Management Fee Receivable		(2,300)
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Increase in Liabilities:

Accounts Payable		<u>1,667</u>
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Net Cash Used in Operating Activities		<u><u>\$ (5,318)</u></u>
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Non-Cash Item - During the year capital assets of \$55,192 were surrendered to the owner of the building.

See accompanying notes to the basic financial statements

AKRON COMMUNITY SCHOOL
Summit County

*NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005 AND
PERIOD ENDED FEBRUARY 28, 2006
Unaudited*

I. Description of the School and Reporting Entity

Akron Community School (ACS), originally Seven Hills Community School (SHCS), is a nonprofit corporation established on October 28, 1999 pursuant to Ohio Revised Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service that qualifies as an exempt organization under §501(c)(3) of the Internal Revenue Code (issued on November 7, 2001). ACS, which is part of Ohio's education program, is independent of any school district. ACS may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of ACS.

ACS (as SHCS) was approved for operation under a contract between the Governing Authority of ACS (as SHCS) and the Ohio Department of Education for a period of five years commencing July 1, 2000 and terminating on June 30, 2005. Effective July 7, 2004 this contract was assigned to the Lucas County Educational Service Center (the Sponsor). The Governing Authority is responsible for carrying out the provisions of the community school contract. Effective August 21, 2003, the Board of Trustees for Akron Community School resigned their membership to the Board of Trustees of Akron Community School and a new Board of Trustees was appointed. See Notes XII and XIII for additional information regarding the Management Company and new Governing Authority.

The Sponsor is responsible for evaluating the performance of the School and has the authority to deny the renewal of the contract at its expiration or terminate the contract prior to expiration. On February 14, 2002 the Board of Trustees changed the name of Seven Hills Community School to Akron Community School and the contract was subsequently moved to Akron with the approval of the Ohio Department of Education.

Closing of the School

The School suspended operations at the end of the 2004 fiscal year and was inactive during fiscal year 2005. The contract between the Sponsor and School expired on June 30, 2005 and was not renewed. With the School's failure to obtain a new sponsor for the 2006 fiscal year, the School officially closed as of July 1, 2005. In accordance with statute, all remaining assets of the School revert to the Ohio Department of Education, subject to any security interest any third party has in the asset, and in no event will the Sponsor or Ohio Department of Education assume the debt by becoming the owner. During fiscal year 2005, the Board of Directors resigned their position and as of the date of these financial statements there are no current Board Members.

II. Summary of Significant Accounting Policies

The financial statements of ACS have been prepared in conformity with generally accepted accounting principles as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. ACS also applies Financial Accounting Standards Board statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of ACS' accounting policies are described below.

AKRON COMMUNITY SCHOOL
Summit County

*NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005 AND
PERIOD ENDED FEBRUARY 28, 2006
Unaudited*

1. Basis of Presentation

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, including depreciation) 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.

2. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Operating statements present increases (e.g., revenues) and decreases (e.g., 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 used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

3. Cash

All monies received by ACS are deposited in demand deposit accounts.

4. Budgetary Process

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705 except for section 5705.391 as it relates to five-year forecasts and spending plans, unless specifically provided for in the school's contract with its sponsor. The contract between ACS and its sponsor does not prescribe a budgeting process for ACS.

5. Management Fee Receivable

The Management Fee receivable represents amounts due from the School's management company for overpayment of management fees. (See Note XIII).

6. Loan Receivable

The Loan Receivable represents a cash loan provided to the School's management company during the fiscal year (See Note XIII).

AKRON COMMUNITY SCHOOL
Summit County

*NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005 AND
PERIOD ENDED FEBRUARY 28, 2006
Unaudited*

II. Summary of Significant Accounting Policies (Continued)

7. Capital Assets and Depreciation

Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the dates received. ACS does not possess any infrastructure. Leasehold improvements are also 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.

Depreciation of leasehold improvements, computers, furniture, equipment and materials is computed using the straight-line method over their estimated useful lives. Improvements to capital assets are depreciated over the remaining useful lives of the related fixed assets. All items with a useful life of one year or greater and a value of \$500 or more are capitalized. Estimated useful lives are as follows:

Capital Asset Classification	Years
Computers and Office Equipment	3
Leasehold Improvements	5
Furniture, Equipment & Materials	10

As of June 30, 2005, the School had \$55,192 in leasehold improvements from a rented building being used as a school building. Once the School ceased to exist, these assets reverted to the owner of the building resulting in a loss on the surrender of these assets.

8. Compensated Absences

ACS had no employees during fiscal year 2005, thus there are no accruals for compensated absences.

9. Use of Estimates

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

III. Deposits

At fiscal year end June 30, 2005 and February 28, 2006 the carrying amount of ACS' deposits and its bank balance was \$5,821 and \$600, respectively. All of the bank balance was covered by the Federal Depository Insurance Corporation and none was covered by US Bank pledged pooled collateral securities.

AKRON COMMUNITY SCHOOL
Summit County

*NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005 AND
PERIOD ENDED FEBRUARY 28, 2006
Unaudited*

IV. Capital Assets

A summary of ACS' capital assets at June 30, 2005 and February 28, 2006 is as follows:

	June 30, 2005	February 28, 2006
Leasehold Improvements	\$137,980	
Computers and Office Equipment	12,561	\$12,561
Furniture, Equipment & Materials	500	500
Less Accumulated Depreciation	(95,499)	(12,744)
Net Capital Assets	\$55,542	\$317

V. Risk Management

1. Property and Liability Insurance

ACS is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2005, ACS contracted with Chisholm Moon Insurance Company for its directors and officers insurance. Effective August 23, 2004, the management company assumes all other general liability, property and casualty liability.

2. Workers' Compensation

ACS had no employees during fiscal year 2005 and therefore incurred no expenses for workers' compensation premiums

3. Employee Medical, Dental, and Vision Benefits

ACS had no employees during fiscal year 2005 and therefore incurred no expenses for employee benefits.

VI. Defined Benefit Pension Plans

Employees Retirement Systems

During fiscal year 2005, the School had no employees and was therefore not required to contribute to the State Teachers Retirement System of Ohio or School Employees Retirement System of Ohio.

VII. Enrollment FTE

The Ohio Department of Education conducts reviews of enrollment 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.

Based on ODE's review, a total of \$29,286 of Foundation Revenue was overpaid to the School and is recorded as a liability.

AKRON COMMUNITY SCHOOL
Summit County

*NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005 AND
PERIOD ENDED FEBRUARY 28, 2006
Unaudited*

VIII. Management Agreement

Effective August 21, 2003, the School contracted with Lighthouse Educational and Professional Development Corporation (Lighthouse Academy) to facilitate day-to-day operations of the School. This includes adopting the educational curriculum, providing teachers, developing and maintaining state-mandated testing and ensuring these requirements are met, and completing all required administrative reports. Lighthouse Academy is also responsible for initiating and authorizing purchases made by the School and maintaining the School's accounting records. Three of the Board members of the School serve on the Board of Trustees of Lighthouse.

A. Lighthouse's Financial Responsibilities

Effective August 21, 2003, ACS was to reimburse Lighthouse for all of its educational and management expenses. In turn, Lighthouse is responsible for all costs associated with operating the School. Such costs shall include, but shall not be limited to; salaries and benefits, including payroll taxes; pension and retirement; the purchase of curriculum materials, textbooks, computers and other equipment, software, and supplies; insurance premiums, utilities, janitorial services, legal and financial management services related to the operation of the School, and repairs and maintenance of the School's facility.

B. Personnel

Effective August 21, 2003, all teaching and administrative personnel became employees of Lighthouse Academy. Lighthouse Academy has the responsibility to select, assign, evaluate, and discharge personnel assigned to the School. Compensation is set according to Lighthouse's compensation policies for teachers, principals and non-instructional staff.

The School did not receive any revenue during the year and therefore was not required to pay a management fee to Lighthouse Academy.

IX. Related Party Transactions

Three members of the ACS Board of Trustees served as members of the Lighthouse Academy governing board. ACS contracts with Lighthouse Academy for all educational and business management services. In addition, several employees of Lighthouse Academy are members of the ACS Board of Trustees.

During fiscal year 2005, a \$25,000 cash loan was made by the School to Lighthouse Academy of which \$24,000 remains outstanding as of June 30, 2005 and February 28, 2006, and is reflected on the Statement of Net Assets as "Loan Receivable". There is no written agreement specifying an interest rate or repayment requirements for this loan.

During fiscal year 2005 and through February 28, 2006, Akron Community School paid certain expenses totaling \$2,848 for services performed during fiscal year 2005. Per the management agreement these expenses are the responsibility of Lighthouse Academy (Note XII). In addition, the State FTE review (see Note VII) resulted in an additional \$10,000 of Foundation Revenue overpayments to Akron Community School from past fiscal years. Since Akron Community School paid this revenue to Lighthouse Academy as a management fee, this revenue is due back to the School. These amounts are reflected on the Statement of Net Assets as a Management Fee Receivable.

AKRON COMMUNITY SCHOOL
Summit County

*NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005 AND
PERIOD ENDED FEBRUARY 28, 2006
Unaudited*

X. Related Party Transactions - Continued

The School also had an accounts payable of \$410 due to Lighthouse Academy from the prior fiscal year that remains unpaid as of February 28, 2006.

Summary of amounts due to and due from Lighthouse Academy at June 30, 2005 and February 28, 2006 are as follows:

	June 30, 2005	February 28, 2006
Management Fee Receivable	\$10,548	\$12,848
Loan Receivable	24,000	\$24,000
Accounts Payable	(410)	(410)
Net Amount Due from Lighthouse Academy	<u>\$34,138</u>	<u>\$36,438</u>

XI. Closure of the School

As of July 1, 2005 the School no longer had a Sponsor as required by statute and therefore is no longer able to function as a charter school in the State of Ohio. The School is currently seeking to dissolve the corporation.



**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**

Akron Community School
Summit County
1585 Frederick Boulevard
Akron, Ohio 44320

To the Board of Trustees:

We were engaged to audit the financial statements of Akron Community School, Summit County, Ohio, (the School) as of and for the year ended June 30, 2005 and the period ended February 28, 2006, and have issued our report thereon dated March 20, 2006, wherein we noted that we were unable to issue an opinion on the financial statements due to the condition of the financial records.

Internal Control Over Financial Reporting

In attempting to plan and perform our audit, we considered the School's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying Schedule of Findings as item 2005-001.

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 audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable condition 2005-001 listed above to be a material weakness.

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 engagement and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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



Betty Montgomery
Auditor of State

March 20, 2006

**AKRON COMMUNITY SCHOOL
SUMMIT COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2005 AND THE PERIOD ENDED FEBRUARY 28, 2006**

FINDING NUMBER 2005-001

Material Weakness

Financial Records

During the course of our engagement in which we attempted an audit of the financial statements of the School for the year ended June 30, 2005 and the period ended February 28, 2006, we noted numerous errors with the School's conversion to Generally Accepted Accounting Principles (GAAP). Due to the significance of these errors and corrections required during our audit, we were unable to form an opinion regarding the financial position of the School as of June 30, 2005 and February 28, 2006, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Some of the more significant errors noted during the audit included, but were not limited to the following;

- Cash and Cash Equivalents was understated by \$2,300 (65%) due to the improper inclusion of an outstanding check in the School's bank reconciliation. The date of this check was intentionally altered from July 29, 2005 to June 29, 2005 by management.
- Management Fee Receivable (Accounts Receivable) was understated by \$5,613 (19%) due to excess State Foundation revenue paid to Lighthouse Academy (a related party) as management fees in prior years and other improper expense reimbursements made to Lighthouse Academy which must be returned to the School.
- Capital Assets and the related Net Assets Invested in Capital Assets were understated by \$55,542 (100%) due to the improper transfer of the assets to Lighthouse Academy (a related party).
- Accounts Payable was overstated by \$24,165 (98%) due to the improper inclusion of an invoice to Lighthouse Academy (a related party) for services occurring after the expiration of their management agreement.



**Auditor of State
Betty Montgomery**

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**AKRON COMMUNITY SCHOOL
SUMMIT 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 4, 2006**