

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

AUDIT REPORT

FOR THE FISCAL YEAR
ENDED JUNE 30, 2018

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

OHIO AUDITOR OF STATE KEITH FABER



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, 2017 through June 30, 2018. 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 cursive script that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

March 13, 2019

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LAKEWOOD CITY ACADEMY
(A Component Unit of Lakewood City School District)
CUYAHOGA COUNTY, OHIO
AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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

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Garfield Hts., Ohio 44125*

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Ohio Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Lakewood City Academy
Lakewood, Ohio

The Honorable Keith Faber
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, 2018, 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, Ohio, as of June 30, 2018, 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 January 22, 2019, on our consideration of the Lakewood City Academy, Ohio'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, Ohio's internal control over financial reporting and compliance.

James G. Zupka,
CPA, President

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

Digitally signed by James G. Zupka, CPA, President
DN: cn=James G. Zupka, CPA, President, o=James
G. Zupka, CPA, Inc., ou=Accounting,
email=jgz@jgzcpa.com, c=US
Date: 2019.01.30 13:25:44 -05'00'

January 22, 2019

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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, 2018

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, 2018. 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 2018 are as follows:

- In total, net position was \$166,444 at June 30, 2018.
- The Academy had operating revenues of \$731,060, operating expenses of \$1,042,000 and non-operating revenues of \$103,380 for fiscal year 2018. Total change in net position for the fiscal year was a decrease of \$207,560.

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 2018?" 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 13-20 of this report.

LAKWOOD CITY ACADEMY
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CUYAHOGA COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

The table below provides a summary of the Academy's net position at June 30, 2018 and June 30, 2017.

	Net Position	
	<u>2018</u>	<u>2017</u>
<u>Assets</u>		
Current assets	\$ 155,985	\$ 354,927
Capital assets, net	<u>17,421</u>	<u>23,376</u>
Total assets	<u>173,406</u>	<u>378,303</u>
<u>Liabilities</u>		
Current liabilities	<u>6,962</u>	<u>4,299</u>
Total liabilities	<u>6,962</u>	<u>4,299</u>
<u>Net Position</u>		
Investment in capital assets	17,421	23,376
Restricted	631	2,418
Unrestricted	<u>148,392</u>	<u>348,210</u>
Total net position	<u>\$ 166,444</u>	<u>\$ 374,004</u>

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2018, the Academy's net position totaled \$166,444.

At year-end, capital assets represented 10.05% 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, 2018

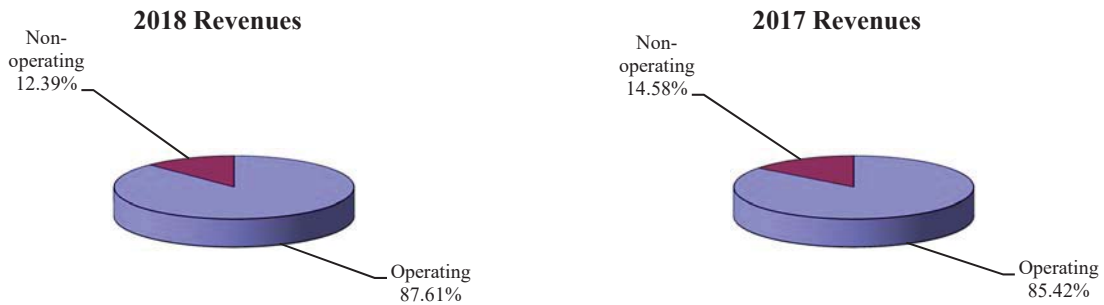
The table below shows the changes in net position for fiscal year 2018 and 2017.

Change in Net Position

	2018	2017
<u>Operating Revenues:</u>		
State foundation	\$ 729,644	\$ 826,292
Tuition and fees	54	316
Sales/charges for services	13	-
Other	1,349	1,198
Total operating revenues	731,060	827,806
<u>Operating Expenses:</u>		
Purchased services	1,002,013	1,132,829
Materials and supplies	25,238	36,989
Other	8,794	8,627
Depreciation	5,955	6,221
Total operating expenses	1,042,000	1,184,666
<u>Non-operating Revenues:</u>		
Federal and State grants	103,380	141,266
Total non-operating revenues	103,380	141,266
Change in net position	(207,560)	(215,594)
Net position at beginning of year	374,004	589,598
Net position at end of year	\$ 166,444	\$ 374,004

Operating revenues of the Academy decreased by \$96,746 or 11.69%. This decrease is the result of less State foundation funding related to 15 less students served by the Academy. Operating expenses decreased \$142,666 or 12.04% due mainly to a decrease in professional and technical purchased services and depreciation expense. The decrease in professional and technical purchased services is due to less payments made to Lakewood City School District.

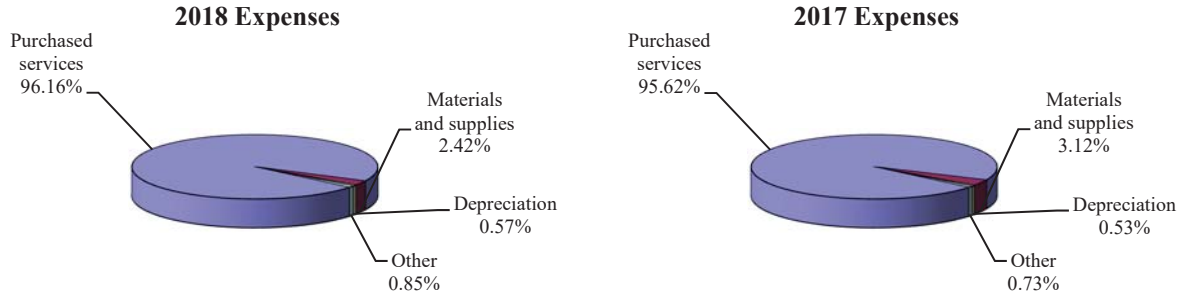
The chart below illustrates the revenues for the Academy during fiscal years 2018 and 2017.



LAKEWOOD CITY ACADEMY
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CUYAHOGA COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018

The chart below illustrates the expenses for the Academy during fiscal years 2018 and 2017.



Capital Assets

At June 30, 2018, the Academy had \$17,421 invested in furniture and computer equipment. The decrease in capital assets is due to current year depreciation of \$5,955. See Note 4 to the basic financial statements for more detail on capital assets.

Capital Assets at June 30
(Net of Depreciation)

	Governmental Activities	
	2018	2017
Furniture and equipment	\$ 17,421	\$ 23,376

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)
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STATEMENT OF NET POSITION
JUNE 30, 2018

Assets:

Current assets:

Equity in pooled cash and cash equivalents	\$	154,759
Prepayments		1,226
Total current assets		155,985

Non-current assets:

Depreciable capital assets, net		17,421
Total non-current assets.		17,421
Total assets.		173,406

Liabilities:

Current liabilities:

Intergovernmental payable		6,962
Total liabilities		6,962

Net position:

Investment in capital assets.		17,421
Restricted for:		
Public school support		382
Other purposes.		249
Unrestricted.		148,392
Total net position.	\$	166,444

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, 2018

Operating revenues:	
Foundation revenue	\$ 729,644
Tuition and fees.	54
Sales/charges for services.	13
Other	1,349
Total operating revenues	<u>731,060</u>
Operating expenses:	
Purchased services.	1,002,013
Materials and supplies	25,238
Other.	8,794
Depreciation	5,955
Total operating expenses.	<u>1,042,000</u>
Operating loss.	<u>(310,940)</u>
Non-operating revenues:	
Federal and state grants	<u>103,380</u>
Total nonoperating revenues	<u>103,380</u>
Change in net position	(207,560)
Net position at beginning of year.	<u>374,004</u>
Net position at end of year	<u><u>\$ 166,444</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Cash flows from operating activities:	
Cash received from State foundation	\$ 733,389
Cash received from tuition and fees	54
Cash received from sales/charges for services.	13
Cash received from other operations	1,349
Cash payments for contractual services	(1,002,510)
Cash payments for materials and supplies	(25,700)
Cash payments for other expenses	(8,707)
	(302,112)
Net cash used in operating activities	
	(302,112)
Cash flows from noncapital financing activities:	
Federal and State grants	103,380
	103,380
Net cash provided by noncapital financing activities.	
	103,380
Net decrease in cash and cash cash equivalents	(198,732)
Cash and cash equivalents at beginning of year	353,491
Cash and cash equivalents at end of year	\$ 154,759
 Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (310,940)
Adjustments:	
Depreciation	5,955
Changes in assets and liabilities:	
Prepayments	210
Accounts payable.	(735)
Intergovernmental payable	3,398
	(302,112)
Net cash used in operating activities	\$ (302,112)

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, 2018

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 102 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)
CUYAHOGA COUNTY, OHIO

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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)
CUYAHOGA COUNTY, OHIO

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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, 2018, 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, 2018, there were no deferred inflows of resources.

E. Budgetary Process

Community schools are statutorily required to adopt a budget by Ohio Revised Code 3314.032(C). However, unlike traditional public schools located in the State of Ohio, community schools are not required to follow the specific budgetary process and limits set forth in the Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the Academy and its Sponsor. The contract between the Academy and its Sponsor does not require the Academy to follow the provisions Ohio Revised Code Chapter 5705; therefore, no budgetary information is presented in the basic financial statements.

F. Cash

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

G. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items on the statement of net position. These items are reported as assets on the statement of net position using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expense is reported in the year in which services are consumed.

H. 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.

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NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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

I. 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.

J. 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, the Title VI-A 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 2018 was \$103,380.

K. 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.

L. 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, 2018, the carrying amount of the Academy’s deposits was \$154,759. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2018, all of the Academy’s bank balance was covered by the Federal Deposit Insurance Corporation (the “FDIC”).

LAKWOOD CITY ACADEMY
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NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year 2018 was as follows:

	Balance <u>June 30, 2017</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>June 30, 2018</u>
Furniture and equipment	\$ 217,290	\$ -	\$ -	\$ 217,290
Less: accumulated depreciation	<u>(193,914)</u>	<u>(5,955)</u>	<u>-</u>	<u>(199,869)</u>
Capital assets, net	<u>\$ 23,376</u>	<u>\$ (5,955)</u>	<u>\$ -</u>	<u>\$ 17,421</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 2018, 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 2018 purchased services expenses were as follows:

Professional and technical services	\$ 975,516
Property services	24,000
Travel mileage/meeting	271
Communications	500
Contracted craftor trade	<u>1,726</u>
Total	<u>\$ 1,002,013</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, 2018.

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.

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, 2018

NOTE 7 - CONTINGENCIES - (Continued)

C. State Foundation Funding

Academy foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. However, there is an important nexus between attendance and enrollment for Foundation funding purposes. Community schools must provide documentation that clearly demonstrates students have participated in learning opportunities. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end.

Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE performed such a review on the Academy for fiscal year 2018.

As of the date of this report, additional ODE adjustments for fiscal year 2018 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2018 financial statements is not determinable, at this time. Management believes this may result in either an additional receivable to, or a liability of, the Academy.

In addition, the Academy's contracts with their Sponsor require payment based on revenues received from the State. As discussed above, additional FTE adjustments for fiscal year 2018 are not finalized. Until such adjustments are finalized by ODE, the impact on the fiscal year 2018 financial statements, related to additional reconciliation necessary with these contracts, is not determinable. Management believes this may result in either an additional receivable to, or liability of, the Academy.

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 2018, the Academy paid Meta Solutions \$25,673 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

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, 2018

NOTE 8 - SERVICE AGREEMENTS - (Continued)

- 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

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 2018. 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 \$912,490 during the fiscal year 2018 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 2018, the Academy has implemented GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pension", GASB Statement No. 81 "Irrevocable Split-Interest Agreements" GASB Statement No. 85, "Omnibus 2017" and GASB Statement No. 86, "Certain Debt Extinguishments".

GASB Statement No. 75 improves the accounting and financial reporting by state and local governments for postemployment benefits other than pension (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The implementation of GASB Statement No. 75 did not have an effect on the financial statements of the Academy.

GASB Statement No. 81 improves the accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the Academy.

GASB Statement No. 85 addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and OPEB. The implementation of GASB Statement No. 85 did not have an effect on the financial statements of the Academy.

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, 2018

NOTE 9 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 86 improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The implementation of GASB Statement No. 86 did not have an effect on the financial statements of the Academy.

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

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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 Keith Faber
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, 2018, and the related notes to the financial statements, which collectively comprise the Lakewood City Academy, Ohio's basic financial statements, and have issued our report thereon dated January 22, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Lakewood City Academy, Ohio'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, Ohio's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lakewood City Academy, Ohio'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, Ohio'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. Therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, which we described in the accompanying Schedule of Findings and Questioned Costs as **Finding 2018-001**, that we considered a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lakewood City Academy, Ohio'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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as **Finding 2018-001**.

Academy's Response to Findings

Lakewood City Academy, Ohio's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Lakewood City Academy, Ohio's response was not subjected to the auditing information applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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, Ohio'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, Ohio's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

James G. Zupka,
CPA, President

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

Digitally signed by James G. Zupka, CPA, President
DN: cn=James G. Zupka, CPA, President, o=James
G. Zupka, CPA, Inc., ou=Accounting,
email=jgz@jgzcpa.com, c=US
Date: 2019.01.30 13:26:06 -05'00'

January 22, 2019

**LAKWOOD CITY ACADEMY
CUYAHOGA COUNTY, OHIO
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED
IN ACCORDANCE WITH GAGAS**

Finding No. 2018-001 – Material Weakness and Material Noncompliance – Foundation Funding

Condition/Criteria

As required by Ohio Revised Code Section 3314.08, Foundation Funding is based upon the Academy's Full-Time Equivalency (FTE). Each internet or computer-based school is required to keep accurate records of each student's participation in daily learning opportunities. For students that are not participating 100 percent of the time, the School should adjust the student's percentage of time attended factor in EMIS to reflect less than 1.0 percent FTE for the entire school year. The Academy is defined as a blended school, which provides both in-class and online learning opportunities. The Academy is required to document the learning opportunities for all non-classroom opportunities and determine a percentage of time to factor in the FTE calculation. The Academy recorded all students at 100 percent of time rather than determining each student's FTE as a percentage of total learning opportunity hours over the minimum required hours, or 920. In addition, the attendance tracking software for elementary and middle school students contained instances of duplication and overlapping.

Cause

The Academy was not accurately reporting its FTEs based on documented learning opportunities. Also, the Academy's attendance tracking software was not properly tracking time.

Effect

The Academy has a projected funding adjustment of approximately \$57,323. Also, there were instances of duplication and overlapping of students' activity.

Recommendation

We recommend that the Academy maintain accurate records of each student's participation in daily learning opportunities in order to properly calculate FTEs for Foundation funding, as required by Ohio Revised Code Section 3314.08. It is our understanding that the Academy has changed attendance tracking software to more accurately reflect the activity time.

Auditee Response/Corrective Action Plan

In response to the issue brought forward by the audit of Lakewood City Academy (LCA), LCA believes the FTE report was submitted accurately and appropriately. LCA worked directly with ODE (as documented in the voluminous emails provided) to ensure the FTE report was accurately and appropriately submitted. LCA relied on the assistance of ODE in completing the FTE report and therefore requests this finding be thoroughly reviewed for accuracy. The guidance provided by ODE in May and June of 2018 was used in the completion of the FTE report. The testing procedures utilized by the auditors in November and December of 2018 does not reflect the guidance provided by ODE. It is inappropriate to provide guidance and assistance in one manner and then apply testing procedures that are contrary to the guidance provided. LCA should not be held responsible for following the guidelines and procedures provided to them by ODE which were subsequently modified when developing the audit procedures.

**LAKWOOD CITY ACADEMY
CUYAHOGA COUNTY, OHIO
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

The prior audit report, as of June 30, 2017, included on findings or management letter recommendations.

OHIO AUDITOR OF STATE KEITH FABER



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
MARCH 26, 2019**