



**Auditor of State
Betty Montgomery**

**LEGACY ACADEMY FOR LEADERS & THE ARTS
MAHONING COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Legacy Academy for Leaders & the Arts
Mahoning County
1812 Oak Hill Avenue
Youngstown, Ohio 44507

To the Governing Board:

We have audited the Balance Sheet of the Legacy Academy for Leaders & the Arts, Mahoning County (the School) as of and for the year ended June 30, 2002, and the related Statement of Revenues, Expenses and Changes in Accumulated Deficit and the Statement of Cash Flows as of and for the period October 1, 2001 through June 30, 2002, the initial audit of the school. These financial statements are the responsibility of the School's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Legacy Academy for Leaders & the Arts, Mahoning County as of June 30, 2002, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the School will continue as a going concern. As shown in the financial statements, the School has incurred a net loss in the amount of \$363,437 for the year ended June 30, 2002, has a working capital deficiency of \$368,062 and has accumulated a deficit retained earnings of \$363,437 at June 30, 2002. Accordingly, there is substantial doubt about the School's ability to continue as a going concern. Management's plans in regards to these matters are discussed in Note 18. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Legacy Academy for Leaders & the Arts
Mahoning County
Independent Accountants Report
Page 2

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2003 on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Betty Montgomery
Auditor of State

August 19, 2003

**LEGACY ACADEMY FOR LEADERS & THE ARTS
MAHONING COUNTY**

Balance Sheet
As of June 30, 2002

Assets

Current Assets

Cash with Fiscal Agent	\$24,776
Intergovernmental Receivable	36,249

Noncurrent Assets

Fixed Assets, net of accumulated depreciation	<u>35,544</u>
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<i>Total Assets</i>	<u><u>96,569</u></u>
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Liabilities and Fund Equity

Current Liabilities

Rent Payable	114,594
Due to Mt. Calvary Penetacostal Church	70,734
Accrued Wages Payable	144,127
Intergovernmental Payable	<u>99,632</u>

<i>Total Current Liabilities</i>	<u>429,087</u>
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Long-Term Liabilities

Accrued Interest Payable	901
Note Payable	<u>30,018</u>

<i>Total Long-Term Liabilities</i>	<u>30,919</u>
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<i>Total Liabilities</i>	460,006
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Fund Equity

Accumulated Deficit	<u>(363,437)</u>
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<i>Total Liabilities and Fund Equity</i>	<u><u>\$ 96,569</u></u>
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See accompanying notes to the financial statements

**LEGACY ACADEMY FOR LEADERS & THE ARTS
MAHONING COUNTY**

Statement of Revenues, Expenses, and
Changes in Accumulated Deficit
For the period October 1, 2001 through June 30, 2002

Operating Revenues	
Foundation Payments	\$736,856
Disadvantaged Public Impact Aid	<u>94,936</u>
<i>Total Operating Revenues</i>	831,792
Operating Expenses	
Salaries	812,341
Fringe Benefits	128,394
Purchased Services	342,571
Materials and Supplies	56,593
Depreciation	3,506
Other Operating Expenses	<u>46</u>
<i>Total Operating Expenses</i>	1,343,451
<i>Operating Loss</i>	(511,659)
Non-Operating Revenues	
Grants	150,000
Interest Income	436
Interest and Fiscal Charges	<u>(2,214)</u>
<i>Total Non-Operating Revenues</i>	148,222
<i>Net Loss</i>	(363,437)
<i>Retained Earnings Beginning of Year</i>	<u>-</u>
<i>Accumulated Deficit End of Year</i>	<u><u>(\$363,437)</u></u>

See accompanying notes to the financial statements

**LEGACY ACADEMY FOR LEADERS & THE ARTS
MAHONING COUNTY**

Statement of Cash Flows
For the period October 1, 2001 through June 30, 2002

Cash Flows from Operating Activities	
Cash Received from State of Ohio	\$ 795,543
Cash Payments to Suppliers for Goods and Services	(252,886)
Cash Payments to Employees for Services	(622,580)
Cash Payments for Employee Benefits	(74,396)
Cash Payments for Other Operating Uses	<u>(46)</u>
Net Cash Used for Operating Activities	(154,365)
Cash Flows from Noncapital Financing Activities	
Cash Received from Grants	150,000
Proceeds of Notes	114,435
Note Principal Payments	(84,417)
Interest Expense	<u>(1,313)</u>
Net Cash Provided by Noncapital Financing Activities	178,705
Cash Flows from Investing Activities	
Interest on Checking Account	<u>436</u>
<i>Net Increase in Cash</i>	24,776
<i>Cash Beginning of Year</i>	<u>-</u>
<i>Cash End of Year</i>	<u><u>\$24,776</u></u>

***Reconciliation of Operating Loss to Net Cash
Used for Operating Activities***

Operating Loss	<u>(\$511,659)</u>
<i>Adjustments</i>	
Depreciation Expense	3,506
Increase in Intergovernmental Receivable	(36,249)
<i>Increase in Liabilities:</i>	
Increase in Rent Payable	114,594
Increase in Intergovernmental Payable	99,632
Increase in Accrued Wages Payable	144,127
Increase in Due to Mt. Calvary Pentacostal Church	70,734
Fixed Assets purchased though Mt. Calvary Pentacostal Church	(39,050)
<i>Total Adjustments</i>	<u>357,294</u>
Net Cash Used for Operating Activities	<u><u>(\$154,365)</u></u>

See accompanying notes to the financial statements

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**LEGACY ACADEMY FOR LEADERS & THE ARTS
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2002**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Legacy Academy for Leaders & the Arts (the School) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 which began operation on October 1, 2001. The School's objective is the discovery, the development and the deployment of the leader within each child. This is accomplished by teaching each student how to identify, analyze and perform the dreams within. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The School may acquire facilities as needed and contract for any services necessary for the operation of the school.

The School was approved for operation under a contract with the Lucas County Educational Service Center (the Sponsor) for a period of one academic year commencing after August 24, 2001. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The sponsorship agreement states the Treasurer of Lucas County Educational Service Center shall serve as the Chief Fiscal Officer of Legacy, (see Note 10). At June 30, 2002, the School terminated its contract with Lucas County Educational Service Center.

The School operates under a six-member Governing Board. Four of the six members of the Board are appointed by Mt. Calvary Pentecostal Church. The Governing Board 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 qualifications of teachers. The Governing Board controls the School's one instruction/support facility staffed by 20 non-certificated and 15 certificated full-time teaching personnel who provide services to 153 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School have been prepared in conformity with accounting principles generally accepted in the United States of America 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 School also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the School's accounting policies are described below.

A. Basis of Presentation

The School utilizes enterprise fund accounting. Enterprise fund 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.

**LEGACY ACADEMY FOR LEADERS & THE ARTS
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by 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 (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The accrual basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary Process

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in the Ohio Revised Code Chapter 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor does prescribe an annual budget requirement.

D. Cash

All monies received by the School are accounted for by the School's fiscal agent, the Lucas County Educational Service Center. All cash received by the fiscal agent is maintained in separate accounts in the School's name. Another checking account was also maintained on the School's records which was in the name of the School and was used mainly for payroll expenses during the year.

E. Fixed Assets and Depreciation

Fixed assets are capitalized at cost (or estimated historical 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. The School maintains a capitalization threshold of two hundred dollars (\$200). The School does not possess any infrastructure.

Improvements are capitalized. The cost 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 furniture and equipment is computed using the straight-line method over an estimated useful life of five to ten years. Improvements to fixed assets are depreciated over fifteen years.

Most fixed assets were purchased through Mt. Calvary Pentecostal Church, a related party.

**LEGACY ACADEMY FOR LEADERS & THE ARTS
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Intergovernmental Revenues

The School currently participated in the State Foundation Program and the State Disadvantaged Pupil Impact Aid (DPIA) Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements are met.

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. The review resulted in the discovery of an underpayment to the School in the amount of \$36,249. This amount is included as an intergovernmental receivable on the balance sheet and was received by the School in January, 2003.

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 School must provide local resources to be used for a specified purpose, and expenditure requirements in which the resources are provided to the School on a reimbursement basis.

G. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

3. CASH

The School's cash is maintained in a separate account with their fiscal agent. The carrying amount of cash at June 30, 2002 was as follows:

Demand deposits	\$24,766
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Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation or (2) collateralized by the financial institution's public entity deposit pool. While the School's carrying amount for deposits was \$24,776, the bank balances were \$28,068.

The School did not have any investments during the year.

4. FIXED ASSETS

A summary of the School's fixed assets at June 30, 2002 follows:

Furniture and Equipment	\$25,550
Leasehold Improvements	<u>13,500</u>
Total Fixed Assets	\$39,050
Less Accumulated Depreciation	<u>(3,506)</u>
Net Fixed Assets	<u>\$35,544</u>

**LEGACY ACADEMY FOR LEADERS & THE ARTS
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2002
(Continued)**

5. RISK MANAGEMENT

A. Property and Liability

Due to the School being in the start up stages, they do not own many fixed assets. The School did not carry insurance for fiscal year 2002.

B. Worker's Compensation

The School pays the State Worker's Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

6. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 45 N. Fourth Street, Columbus, Ohio 43215-3634 or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School's rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2002, 5.5 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS Retirement Board. The School's required contribution for pension obligations to SERS for the fiscal year ended June 30, 2002, was \$60,368; 57.1 percent has been contributed for fiscal year 2002. The unpaid contribution for fiscal year 2002, in the amount of \$25,899 is recorded as a liability.

B. State Teachers Retirement System

The School contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

For the fiscal year ended June 30, 2002, plan members were required to contribute 9.3 percent of their annual covered salaries. The School was required to contribute 14 percent; 9.5 percent was the portion used to fund the pension obligation. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

**LEGACY ACADEMY FOR LEADERS & THE ARTS
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2002
(Continued)**

6. DEFINED BENEFIT PENSION PLANS (Continued)

The School's required contributions for pension obligations to STRS for the fiscal year ended June 30, 2002 was \$56,640; 57.96 percent has been contributed for fiscal year 2002. The unpaid contribution for fiscal year 2002, in the amount of \$23,810, is recorded as a liability.

7. POSTEMPLOYMENT BENEFITS

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care costs in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2002, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$10,552 for fiscal year 2002.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001, (the latest information available) the balance in the Fund was \$3,256 billion. For the year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay was established at \$12,400. For the School, the amount contributed to fund health care benefits, including surcharge, during the 2002 fiscal year equaled \$28,894.

**LEGACY ACADEMY FOR LEADERS & THE ARTS
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2002
(Continued)**

7. POSTEMPLOYMENT BENEFITS (Continued)

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2001 (the latest information available), were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS had approximately 50,000 participants currently receiving health care benefits.

8. STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...".

The School is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

9. CONTINGENCIES

A. Grants

The School received financial assistance from federal and state agencies in the form of grants. The disbursement 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 School at June 30, 2002.

B. Federal, State, and Local Penalties and Interest

Due to cash flow problems, various payroll deposits were not made by required deadlines. No estimate could be made of penalties and interest due as a result of different agency penalties, interest and timing requirements and this amount could be substantial. The following withholding and employer expenses remained unpaid at year end and make up the intergovernmental payable amount on the balance sheet:

Federal Withholding	\$20,846
State of Ohio Withholding	4,897
City of Youngstown Withholding	3,929
Employee STRS Withholding	7,890
Employee SERS Withholding	8,071
Employer Medicare	4,621
Employer STRS Expense	23,810
Employer SERS Expense	<u>25,568</u>
Total	<u>\$99,632</u>

**LEGACY ACADEMY FOR LEADERS & THE ARTS
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2002
(Continued)**

10. FISCAL AGENT

The sponsor agreement states the Treasurer of the Lucas County Educational Service Center shall serve as the Chief Fiscal officer of the School. As part of this agreement, the School shall compensate the Lucas County Education Service Center two percent (2%) of the per pupil allotments paid to the School from the State of Ohio. The total contract payment was \$14,012 which was paid in full during the year.

The Treasurer shall perform all of the following functions while serving as the Chief Fiscal Officer of the School:

- A. Maintain custody of all funds received by the School in segregated accounts separate from Lucas County ESC or any other Community School's funds;
- B. Maintain all books and accounts of the School;
- C. Maintain all financial records of the School and follow procedures for receiving and expending funds;
- D. Assist the School in meeting all financial reporting requirements established by the Auditor of Ohio;
- E. Invest funds of the School in the same manner as the funds of Lucas County ESC are invested, but the Treasurer shall not commingle the funds with any of Lucas County ESC or any other community school; and
- F. Pay obligation incurred by the School within a reasonable amount of time, not more than 14 calendar days after receipt of a properly executed voucher signed by the Chief Administrative Officer of the School so long as the proposed expenditure is within the approved budget and funds are available.

At June 30, 2002, the contract with Lucas County Educational Service Center, including fiscal responsibilities, was terminated. The new sponsor for the School became the Ohio Department of Education.

11. PURCHASED SERVICES

For the period ended June 30, 2002, purchased service expenses were payments for services rendered by various vendors as follows:

Professional and Technical Services	\$50,995
Other Purchased Services	746
Travel Mileage/Meeting Expense	390
Communications	9,242
Utilities	60,825
Contracted Craft or Trade Services	3,072
Property Services	<u>217,301</u>
Total	<u>\$342,571</u>

**LEGACY ACADEMY FOR LEADERS & THE ARTS
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2002
(Continued)**

12. OPERATING LEASE

The School entered into a lease agreement with Mt. Calvary Pentecostal Church for use of its offices, land, school modulars, furniture and equipment for \$21,000 per month. The lease commenced September 1, 2001. The School paid \$95,406 during the fiscal year and owed \$114,594 at year end, which is reflected as rent payable. This lease was terminated and a new five year lease was signed with Mt. Calvary Pentecostal Church for the term September 17, 2002 through September 17, 2007. For the first year of this contract, the rent will be \$218,000, payable in monthly installments of \$18,167. For the remaining four years, the annual rent will be \$540,000, payable in monthly installments of \$45,000.

13. RELATED PARTY TRANSACTIONS

Edward Bolling, Sr. is Treasurer of the School and is also fiscal officer for Mt. Calvary Pentecostal Church whose offices house a number of employees who also work for both entities. Separate Board of Trustees exists for both the School and Mt. Calvary Pentecostal Church, however, during the year Mt. Calvary paid many of the operating expenses for the School. At year end Mt. Calvary was due \$114,594 for rent, \$70,734 for some of the School's operating expenses, \$30,018 in notes to meet payroll expenses, and \$901 in accrued interest payable on the notes.

14. SUBSEQUENT EVENT

On July 2, 2002 Mt. Calvary Pentecostal Church lent an additional \$30,000 to meet the School's last payroll of the year. This brought the School's total note payable to \$60,018 as of that date.

15. DEFICIT FUND EQUITY

At year end, the School had a deficit fund equity balance and net loss of (\$363,437). A lawsuit was filed against Legacy Academy by the Youngstown City School District alleging that its sponsor, Lucas County Educational Service Center, did not have the authority to operate a charter school outside of Lucas County. The State Education Department agreed with Youngstown City School District and withheld the School's state funding for the period of October, 2001 through March, 2002 and ultimately resulted in the School being unable to pay payroll taxes and operating expenses on its own. This lawsuit was resolved in March, 2002 and State funding has since been reinstated and payments have continued on a regular basis.

16. PENDING LITIGATION

A suit was filed in Franklin County Common Pleas Court on May 14, 2001 alleging that Ohio's Community (i.e. Charter) Schools program violates the State Constitution and State law. On April 21, 2003, the Court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case is set for oral argument on November 18, 2003.

17. FEDERAL TAX EXEMPTION STATUS

The School has not obtained tax exempt status under Section 501 (c)(3) of the Internal Revenue Code. Should the School fail to obtain federal tax exempt status, it could be subject to federal income tax, the effect of which has not been assessed.

**LEGACY ACADEMY FOR LEADERS & THE ARTS
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2002
(Continued)**

18. MANAGEMENT'S PLANS REGARDING ACCUMULATED DEFICIT

The School has developed a plan to stabilize its financial position. The primary cause of the financial problem, which involved litigation concerning the sponsorship of the school, has been resolved. To facilitate its recovery, the school has renegotiated a repayment schedule with its major creditors and complied with the Ohio Department of Education requirements to ensure its future cash flow. Management feels these measures, coupled with a need to maintain the quality of education offered to the students, will ensure the long-term integrity of the school.

19. NOTES PAYABLE

The School had signed several promissory notes with Mt. Calvary Pentecostal Church during the school year with the balance outstanding at June 30, 2002 on the final one being as follows:

Promissory Installment Notes to Mt. Calvary Pentecostal Church

Principal Outstanding	\$30,018
Interest Rate	3.00%

These notes were issued for the purpose of paying operational expenses of the School incurred during the school year. Payments of principal and interest are payable on demand.

Notes are statutorily limited to maturing at the end of the year the note was issued if the debt obligates or is collateralized by the State monies received by the School under Ohio law. The promissory installment notes to Mt. Calvary Pentecostal Church issued and/or renewed during the year, are general in nature and do not specifically exclude State foundation monies and extended beyond year end, contrary to State statutes. As of April 8, 2003, the law no longer places a one year limit on debt issued in accordance with Ohio Revised Code Sections 3314.08 (D) and (J).

20. MATERIAL NONCOMPLIANCE

The School was delinquent in its State Teachers Retirement System (STRS) and School Employment Retirement System (SERS) payments for employer and employee contributions. At June 30, 2002, the School owed \$31,700 in employer and employee portions to STRS and \$33,639 in employer and employee portions to SERS. As of August 19, 2003, the School is current on its payments to STRS and SERS.

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**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Legacy Academy for Leaders & the Arts
Mahoning County
1812 Oak Hill Avenue
Youngstown, Ohio 44507

To the Governing Board:

We have audited the financial statements of Legacy Academy for Leaders & the Arts, Mahoning County (the School) as of and for the period ended June 30, 2002, the initial audit of the School, and have issued our report thereon dated August 19, 2003, in which we expressed substantial doubt about the School's ability to continue as a going concern. 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.

Compliance

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* and are described in the accompanying Schedule of Findings as items 2002-001 and 2002-002. We also noted certain immaterial instances of noncompliance that we have reported to management of the School in a separate letter dated August 19, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the School in a separate letter dated August 19, 2003.

Legacy Academy for Leaders & the Arts
Mahoning County
Independent Accountants' Report on Compliance and on Internal Control
Required by *Government Auditing Standards*
Page 2

This report is intended solely for the information and use of management and the Board of Trustees, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

August 19, 2003

**LEGACY ACADEMY FOR LEADERS AND THE ARTS
MAHONING COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2002**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2002-001

Noncompliance Citation

Community Schools may issue debt, however, if the debt obligates, or is secured by, or repaid by the State monies received by the community school under Ohio Revised Code Section 3314.08 (D), then the debt must be issued in accordance with Ohio Revised Code Section 3314.08 (J) which states, in part, that "the School may issue notes to evidence such borrowing to mature no later than the end of the fiscal year in which such money was borrowed."

During the fiscal year ended June 30, 2002, the School had a note payable outstanding in the amount of \$30,018. This money was borrowed and used for operating expenses and has no specific maturity date. This debt obligates the state foundation payments in that it does not specifically exclude the School's Ohio Revised Code Section 3314.08 (D) funds from the general collateral provisions and is being repaid with State monies. Therefore, Ohio Revised Code Section 3314.08 (J) would apply.

As of April 8, 2003, the law no longer places a one year limit on debt issued in accordance with these aforementioned Ohio Revised Code sections.

FINDING NUMBER 2002-002

Noncompliance Citation

Ohio Revised Code Section 3307.26 states that each teacher and Ohio Revised Code Section 3309.47 states that each school employee retirement system contributor shall contribute eight percent of the contributor's compensation to the employees' savings fund in the respective retirement system. Ohio Revised Code Section 3307.28 and Ohio Revised Code Section 3309.49 requires each employer to pay to the State Teachers Retirement System (STRS) and School Employees Retirement System (SERS) an amount certified by the secretary that shall be a certain per cent of the earnable compensation of all employees. The School was delinquent in paying its employer and employee portions of STRS and SERS payments throughout the year. When timely payments are not made, the School could incur unnecessary penalty fees and employees may not receive appropriate retirement benefits. At June 30, 2002, the School owed \$31,700 in employer and employee portions to STRS and \$33,639 in employer and employee portions to SERS. We recommend that the fiscal officer ensure that payments to STRS and SERS are paid by the due date.

As of August 19, 2003, the School is current on its payments to STRS and SERS.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

LEGACY ACADEMY FOR LEADERS AND THE ARTS

MAHONING 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
NOVEMBER 6, 2003**