PAUL LAURENCE DUNBAR ACADEMY
LUCAS COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2003

Auditor of State
Betty Montgomery

PAUL LAURENCE DUNBAR ACADEMY
LUCAS COUNTY

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Paul Laurence Dunbar Academy
Lucas County
331 14th Street
Toledo, Ohio 43624-1402

To the Governing Board:

We have audited the Balance Sheet of Paul Laurence Dunbar Academy, Lucas County, (the Academy) as of June 30, 2003, and the related Statement of Revenues, Expenses, and Changes in Retained Earnings, and the Statement of Cash Flows for the fiscal year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the Academy'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.

The Academy has not obtained an exemption from Federal income taxes. Therefore, its net earnings are subject to Federal, State and Local income taxes. The accompanying financial statements do not include a provision for income taxes or accrued income taxes, which we believe should be included to conform with accounting principles generally accepted in the United States of America.

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Because of the departure referred to in the preceding paragraph, net income and retained earnings are overstated and liabilities for accrued income taxes is understated by amounts which, while material, we were unable to determine.

In our opinion, because of the effects of the matters discussed in the previous two paragraphs, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Academy, as of June 30, 2003, or the results of operations and its cash flows for the year then ended.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 2004 on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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.

Betty Montgomery

Betty Montgomery
Auditor of State

May 13, 2004

PAUL LAURENCE DUNBAR ACADEMY
LUCAS COUNTY

BALANCE SHEET
AS OF JUNE 30, 2003

Assets		
Current Assets		
Cash	$	185,997
Accounts Receivable		146
Intergovernmental Receivable		18,342
Total Current Assets		204,485
Non-Current Assets		
Fixed Assets (Net of Accumulated Depreciation)		12,253
Total Assets	$	216,738
Liabilities and Fund Equity		
Current Liabilities		
Accounts Payable	$	13,277
Contracts Payable		40,377
Loan Payable to Lake Erie Academy		37,700
Total Current Liabilities		91,354
Fund Equity		
Retained Earnings		125,384
Total Liabilities and Fund Equity	$	216,738

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

PAUL LAURENCE DUNBAR ACADEMY
LUCAS COUNTY

STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2003

Operating Revenues	
Foundation Payments	$ 783,307
Disadvantaged Pupil Impact Aid	134,799
Food Services	674
Other Operating Revenues	1,211
Total Operating Revenues	919,991
Operating Expenses	
Salaries	404,069
Fringe Benefits	144,517
Purchased Services	434,272
Materials and Supplies	64,604
Depreciation	2,087
Other Operating Expenses	11,732
Total Operating Expenses	1,061,281
Operating Loss	(141,290)
Non-Operating Revenues	
Grants - Federal	248,074
Grants - State	18,600
Total Non-Operating Revenues	266,674
Net Income	125,384
Retained Earnings at Beginning of Year	-
Retained Earnings at End of Year	$ 125,384

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

PAUL LAURENCE DUNBAR ACADEMY
LUCAS COUNTY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2003

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from State of Ohio	$ 908,270
Cash Received from Food Services	674
Cash Received from Other Operating Revenue	1,065
Cash Payments to Suppliers for Goods and Services	(495,432)
Cash Payments to Employees for Services	(373,184)
Cash Payments to Employee Benefits	(136,924)
Net Cash Used for Operating Activities	(95,531)
Cash Flows from Noncapital Financing Activities	
Grants - Federal	239,568
Grants - State	18,600
Net Cash Provided by Noncapital Financing Activities	258,168
Cash Flows from Capital and Related Financing Activities	
Payments for Capital Acquisitions	(14,340)
Loan Proceeds from Lake Erie Academy	37,700
Net Cash Used for Capital and Related Financing Activities	23,360
Net Increase in Cash and Cash Equivalents	185,997
Cash and Cash Equivalents at the Beginning of the Year	-
Cash and Cash Equivalents at the End of the Year	$ 185,997

(Continued)

PAUL LAURENCE DUNBAR ACADEMY
LUCAS COUNTY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)

Reconciliation of Operating Loss to Net Cash Used for Operating Activities		
Operating Loss	$	(141,290)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities		
Depreciation		2,087
Changes in Liabilities:		
(Increase) in Accounts Receivable		(146)
(Increase) in Intergovernmental Receivable		(9,836)
(Increase) in Prepaid Items		
Increase in Accounts Payable		13,277
Increase in Accrued Wages Payable		
Increase in Contract Payable		40,377
Increase in Compensated Absences Payable		
Increase in Intergovernmental Payable		
Increase in Leases Payable		
Total Adjustments		45,759
Net Cash Used for Operating Activities	$	(95,531)

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

Paul Laurence Dunbar Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy's mission is to educate, excite, and empower students; educating them when choices in public education have been unsatisfactory for their needs; exciting them in a atmosphere where a love of learning and the arts is pervasive; empowering them by providing the tools of heightened self-esteem, tolerance for others and respect for the dignity of others. At all times, excellence is the achievable goal. The Academy, 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 Academy may acquire facilities as needed and contract for any services necessary for the operation of the Academy.

The Academy was approved for operation under a contract with the Ohio Council of Community Schools, formerly known as the University of Toledo Charter School Council (the Sponsor) for a period of five years commencing July 1, 2002. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy operates under the direction of a five member Governing Board whom also is the Governing Board for three other Leona Group schools (See Note 13). 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 Academy's instructional/support facility staffed by three non-certified personnel and eight certificated teaching personnel who provide services to 154 students.

The Governing Board has entered into a management contract with The Leona Group, LLC (TLG), a for-profit limited liability corporation, for management services and operation of its school. TLG operates the Academy's instructional/support facility, is the employer of record for all personnel and supervises and implements the curriculum. In exchange for its services, TLG receives a capitation fee and year-end fee. (See Note 14.)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy 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. The Academy 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 the Academy's accounting policies are described below.

A. 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.

B. 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.

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 Ohio Revised Code Chapter 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does prescribe an annual budget requirement in addition to preparing a 5-year forecast which is to be updated on an annual basis. The Academy follows a budget that is adopted and revised as needed.

D. Cash

All monies received by the Academy are accounted for by the Academy's management company, The Leona Group. All cash received by the Fiscal Officer is maintained in a bank account in the Academy's name or temporarily used to purchase short-term investments. For the purposes of the statement of cash flows and for presentation on the balance sheet, investments with original maturities of three months or less at the time they are purchased by the Academy are considered to be cash equivalents.

E. Fixed Assets and Depreciation

Fixed assets are capitalized at cost and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value as of the dates received. The Academy does not possess any infrastructure.

Software costing more then $10,000 per application, land and buildings costing more then $1,000, furniture and equipment costing more then $1,000 per item or any item costing under $1,000 alone but purchased as a group for over $2,500 will be capitalized.

Depreciation of furniture and equipment is computed using the straight-line method over an estimated useful life of five years.

F. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid (DPIA) Program, and the State Special Education Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

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.

The Academy also participates in the Federal Charter Academy Grant Program through the Ohio Department of Education. Under this program, the Academy was awarded $150,000 to offset start-up costs of the Academy. Revenue received from this program is recognized as non-operating revenue in the accompanying financial statements.

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. DEPOSITS AND INVESTMENTS

At June 30, 2003, the carrying amount of the Academy's deposits was $185,997 and the bank balance was $194,563. The bank balance was covered by federal depository insurance.

4. RECEIVABLES

Receivables at June 30, 2003, consisted of accounts and intergovernmental receivables. Accounts receivable are considered collectible in full. Intergovernmental receivables are considered collectible in full due to the current year guarantee of federal funds.

5. FIXED ASSETS

A summary of the Academy's fixed assets at June 30, 2003, follows:

Furniture and Equipment	$ 14,340
Less: Accumulated Depreciation	(2,087)
Net Fixed Assets	$ 12,253

6. RISK MANAGEMENT

A. Property and Liability

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 employees; and natural disasters. For the fiscal year ended June 30, 2003, the Academy contracted with EMC Insurance Companies for property and general liability insurance with a $1,000,000 single occurrence limit and $2,000,000 aggregate limit and no deductible. Excess Liability coverage of $8,000,000 single occurrence limit and $8,000,000 aggregate limit and no deductible is also held.

Professional liability is protected by insurance coverage through EMC Insurance with a $1,000,000 single occurrence limit and $2,000,000 aggregate limit and no deductible. Vehicle coverage is protected by EMC Insurance with a $1,000,000 combined single limit of liability.

B. Workers' Compensation

The Academy 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.

7. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The Academy contributes to the State Teachers Retirement System of Ohio (STRS), a cost sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on member contributions and earned interest matched by STRS funds multiplied by an actuarially determined annuity factor. The DCP allows members to place all of their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age fifty and termination of employment. The CP offers features of both the DBP and DCP. In the CP, member contributions are invested by the member and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP. Existing members with less then five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balance from the existing DBP into the DCP or CP. This option expired on December 31, 2001.

A DBP or CP member with five or more years of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DCP who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salary and the Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of it consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The Academy's required contribution for pension obligations for the DBP for the fiscal year ended June 30, 2003, was $40,015; 90 percent has been contributed for fiscal year 2003. There were no contributions made to the DCP or the CP by the Academy or plan members for fiscal year ended June 30, 2003.

B. School Employees Retirement System

The Academy contributes to the School Employees Retirement System of Ohio (SERS), a cost- sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

For the fiscal year ended June 30, 2003, plan members were required to contribute 9 percent of their annual covered salary and the Academy was required to contribute an actuarially determined rate. The rate for fiscal year 2003 was 14 percent of annual covered payroll; 8.17 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employees are established and may be amended, up to the statutory maximum amounts, by the SERS Retirement Board. The Academy's required contribution for pension obligations to SERS for the fiscal year ended June 30, 2003 was $8,030; 100 percent has been contributed for fiscal year 2003.

8. POSTEMPLOYMENT BENEFITS

The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired classified 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 obligation to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

The State Teachers Retirement Board has the 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 cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2003, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Academy, this amount was $3078.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was $3,011 million at June 30, 2002 (the latest information available). For the fiscal year ended June 30, 2002, net health care costs paid by STRS were $354,697,000, and STRS had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less then 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 their premium.

For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between the minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay was established at $14,500. For the Academy, the amount used to fund health care benefits, including the surcharge, was $5,730 for fiscal year 2003.

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 annual health care expenses. Expenses for health care at June 30, 2002 (the latest information available), were $182,946,777, and the target level was $274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of $335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

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

10. CONTINGENCIES

A. Grants

The Academy 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 of the funds. 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, 2003.

B. 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 laws. 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 was heard for oral argument on November 18th, 2003. The effect of this suit, if any, on the Academy is not presently determinable.

C. State Funding

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The results of this review resulted in the state funding being adjusted. The Academy foundation payments were increased by $9,836 which has been recorded as an intergovernmental receivable on the financial statements.

11. PURCHASED SERVICE EXPENSES

For the year ended June 30, 2003, purchased service expenses were payments for services rendered by various vendors, as follows:

Repairs and Maintenance	$ 25,986
Legal	7,406
Insurance	14,901
Advertising	13,568
Ohio Council of Community Schools	29,802
The Leona Group, LLC (See Note 14)	132,120
Cleaning Services	989
Utility	12,946
Other Professional Services	36,913
Other Rentals and Leases	44,953
Building Lease Agreements	114,688
Total Purchased Services	$ 434,272

12. OPERATING LEASES

The Academy has entered into a sublease for the period August 15, 2002 through July 30, 2003 with Neighborhoods in Partnership to sublease 14,689 square feet of space for a school facility. Payments made totaled $114,688 for the fiscal year. The building which houses the Academy is owned by Neighborhoods in Partnership. The Academy has the option to renew the lease at an inflation-adjusted rate at the end of the contract period.

The Academy entered into a lease with Ervin Leasing for a copier for the period September 30, 2002 through September 29, 2006. Payments made totaled $3,190 for the fiscal year.

The Academy entered into a lease with Ervin Leasing for a fax machine for the period September 30, 2002 through September 29, 2005. Payments made totaled $355 for the fiscal year.

The following is a schedule of the future minimum payments required under the operating leases as of June 30, 2004.

Fiscal Year Ending June 30,	Facility Lease	Copier Lease	Fax Machine Lease
2004	$ 8,667	$ 3,828	$ 426
2005		3,828	426
2006		3,828	71
2007		638	
Total minimum lease payments	$ 8,667	$ 12,122	$ 923

13. RELATED PARTIES

Three Board members of the Academy are employees of The Leona Group, LLC (TLG). The Academy contracts with TLG for the operation of its school, including program evaluation; human resources; staffing, supervision and performance review; fiscal services and accounting; and compliance. As stated in Note 11 the Academy paid TLG $132,120 during fiscal year 2003.

The Academy's Governing Board consists of the same members as the Governing Board for Eagle Academy, Toledo Accelerated Academy, and Lake Erie Academy.

During the audit period, the Academy borrowed $37,700 from Lake Erie Academy. This amount was repaid to Lake Erie Academy on November 21, 2003.

14. MANAGEMENT AGREEMENT

The Academy entered into a five-year contract, effective May 1, 2002 through June 30, 2007, with The Leona Group, LLC for educational management services for all of the management, operation, administration, and education at the Academy. In exchange for its services, TLG receives a capitation fee of 12 percent of the per pupil expenditures and a Year-End fee of 50 percent of the audited financial statement excess of revenues over expenses, if any. The amount paid to TLG for fiscal year 2003 totaled $132,120 and no amount was due at June 30, 2003. Terms of the contracts require TLG to provide the following:

- Implementation and administration of the Educational Program.
- Management of all personnel functions, including professional development.
- Operation of the school building and the installation of technology integral to school design.
- All aspects of the business administration of the Academy.
- The provision of food service for the Academy.
- Any other function necessary or expedient for the administration of the Academy.

The Academy may terminate this agreement with cause prior to the end of the term in the event that The Leona Group should fail to remedy a material breach within a period reasonable under the circumstances, but not less then sixty (60) days after notice from the Academy.

The Leona Group may terminate this agreement with cause prior to the end of the specified term in the even the Academy fails to remedy a material breach within a period reasonable under the circumstances, but not less then sixty (60) days after notice from The Leona Group.

In the event this agreement is terminated by either party prior to the end of the specified term, the termination will not become effective until the end of the school year following the notice of termination and The Leona Group shall provide the Academy reasonable assistance for up to 90 days to assist in the transition to a regular school program.

Upon expiration of this agreement at the completion of the contract term and where there is no renewal, The Leona Group shall have the right to reclaim any usable property or equipment as were purchased by or for the Academy by The Leona Group at its cost or expense. Fixtures and building alterations shall become the property of the Academy.

15. TAX EXEMPT STATUS

The Academy has not filed for its tax exempt status under § 501(c)(3) of the Internal Revenue Code. The Academy does intend to file for such tax exempt status. The Academy has made no provision for any potential future tax liability which could result from not obtaining the § 501(c)(3) tax exempt status.

16. SUBSEQUENT EVENTS

The Academy has entered into a lease for the period August 1, 2003 through July 30, 2007 with Toledo Infocom, LLC to lease 16,600 square feet of space for a school facility at a rate of $9,683 per month. The building which houses the Academy is owned by Toledo Infocom, LLC. The Academy has the option to renew the lease at an inflation-adjusted rate at the end of the contract period.

On September 23, 2003, the Academy has provided a loan to Lake Erie Academy in the amount of $50,000. This loan was repaid by Lake Erie Academy on January 28, 2004.

Auditor of State
Betty Montgomery

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

Paul Laurence Dunbar Academy
Lucas County
331 14th Street
Toledo, Ohio 43624-1402

To the Governing Board:

We have audited the financial statements of Paul Laurence Dunbar Academy, Lucas County, (the Academy) for the year ended June 30, 2003, and have issued our report thereon dated May 13, 2004. Our report indicated the financial statements were not fairly presented in accordance with accounting principles generally accepted in the United States if America. The Academy did not obtain an exemption from Federal Income taxes and no provision was established for taxes or accrued income taxes at June 30, 2003. 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 of America.

Compliance

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards.* However, we noted certain immaterial instances of noncompliance that we have reported to the management of the Academy in a separate letter dated May 13, 2004.

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Internal Control over Financial Reporting

In planning and performing our audit, we considered the Academy'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. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be 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 Academy's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2003-001.

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. 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 to be material weaknesses. However, we consider the reportable condition described above to be a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to management of the Academy in a separate letter dated May 13, 2004.

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

Betty Montgomery
Auditor of State

May 13, 2004

PAUL LAURENCE DUNBAR ACADEMY
LUCAS COUNTY

SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2003

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

FINDING NUMBER 2003-001

Material Weakness - Tax Exempt Status

The Academy has not applied for tax exempt status with the Internal Revenue Service (IRS). Without approval of the tax exempt status, the net income consequently is subject to taxation by the IRS. Further the Academy has not filed any tax returns. The accompanying financial statements do not include amounts associated with an income tax liability or associated fines or penalties.

We recommend the Academy file for tax exempt status with the IRS and/or establish provisions for federal, state, and local and accrued taxes.

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Auditor of State
Betty Montgomery

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P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

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PAUL LAURENCE DUNBAR ACADEMY

LUCAS 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
JUNE 8, 2004