LEGACY ACADEMY FOR LEADERS & THE ARTS
MAHONING COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2003

Auditor of State
Betty Montgomery

LEGACY ACADEMY FOR LEADERS AND THE ARTS
MAHONING COUNTY

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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 Legacy Academy for Leaders & the Arts, Mahoning County (the School) as of and for the year ended June 30, 2003, and the related Statement of Revenues, Expenses and Changes in Accumulated Deficit and the Statement of Cash Flows as of and for the year ended June 30, 2003, as listed in the table of contents. 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 Legacy Academy for Leaders & the Arts, Mahoning County as of June 30, 2003, 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.

As shown in the financial statements, the School has a working capital deficiency of $278,664 and has accumulated a deficit retained earnings of $259,648 at June 30, 2003. Management's plans in regards to these matters are discussed in Note 16.

Voinovich Government Center / 242 Federal Plaza W. / Suite 302 / Youngstown, OH 44503
Telephone: (330) 797-9900 (800) 443-9271 Fax: (330) 797-9949
www.auditor.state.oh.us

In accordance with *Government Auditing Standards*, we have also issued our report dated April 5, 2006 on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and you should read it in conjunction with this report in assessing the results of our audit.

Betty Montgomery

Betty Montgomery
Auditor of State

April 5, 2006

Legacy Academy for Leaders & the Arts
Balance Sheet
As of June 30, 2003

Assets

Current Assets

Cash and Cash Equivalents with Fiscal Agent	$	49,522
Due from Mt. Calvary		38,238
Intergovernmental Receivable		18,618
Noncurrent Assets		
Fixed Assets, net of accumulated depreciation		19,016
Total Assets	$	125,394

Liabilities and Fund Equity

Current Laiblities

Accounts payable	$	9,833
Rent Payable		254,648
Payroll liabilities		92,287
Intergovernmental payable		28,274
		385,042

Fund Equity

Accumulated Deficit	$	(259,648)
Total Liabilities & Fund Equity	$	125,394

See accompanying notes to the financial statements.

Legacy Academy for Leaders & the Arts

Statement of Revenues, Expenses and Changes in Accumulated Deficit

For the Year Ended June 30, 2003

Operating Revenues		
Foundation Payments	$	1,140,812
Disadvantaged Public Impact Aid		171,819
Other Miscellaneous Income		10,202
Total Operating Revenues	$	1,322,833
Operating Expenses		
Salaries	$	767,016
Fringe Benefits		129,884
Purchased Services		376,680
Materials & Supplies		78,710
Depreciation		5,241
		1,357,531
Operating (Loss)	$	(34,698)
Non-Operating Revenues and Expenses		
Operating Grants	$	188,908
Interest Income		4
Interest and fiscal charges		(10,646)
Total Non-Operating Revenues and (Expenses)		178,266
Net Income		143,568
Accumulated Deficit at Beginning of Year		(403,216)
Accumulated Deficit at End of Year	$	(259,648)

See accompanying notes to the financial statements.

Legacy Academy for Leaders & the Arts
Statement of Cash Flows
For the Year Ended June 30, 2003

Cash Flows from Operating Activities		
Cash received from State of Ohio		1,501,539
Cash Payments to Suppliers for Goods and Services		(78,710)
Cash Payments to Employees for Services		(767,016)
Cash Payments for Employee Benefits		(129,884)
Cash Payments for Other Operating Uses		(477,034)
Net Cash Provided by Operating Activities		48,895
Cash Flows from Noncapital Financing Activities		
Operating Grants Received		16,528
Proceeds of Loans		884
Loan Principal Payments		(30,919)
Interest Expense		(10,646)
Net Cash Used for Noncapital Financing Activities	$	(24,153)
Cash Flows from Investing Activities		
Cash Received from Interest on Investments		4
Net Cash Provided by Investing Activities		4
Net Increase in Cash and Cash Equivalents		24,746
Cash and Cash Equivalents at Beginning of Year		24,776
Cash and Cash Equivalents at End of Year	$	49,522
Reconciliation of Operating Income to Net Cash Provided by (Used for) Operating Activities		
Operating Income		143,568
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities		
Depreciation Expense		5,241
Increase in Due from Mt. Calvary		(38,238)
Increase in Intergovernmental Receivable		(17,631)
Increase in Accounts Payable		9,833
Increase in Rent Payable		140,054
(Decrease) in Due to Mt. Calvary		(70,734)
(Decrease) in Accrued wages		(51,840)
(Decrease) in Intergovernmental Payable		(71,358)
Total Adjustments		(94,673)
Net Cash Provided by Operating Activities	$	48,895

See accompanying notes to the financial statements.

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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. At June 30, 2002, the School terminated its contract with Lucas County Educational Service Center and the Ohio Department of Education became the School's new sponsor through June 30, 2005.

The School operates under a five-member Governing Board. Four of the five 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.

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 maintained in a separate account in the School's name.

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 years. Improvements to fixed assets are depreciated over fifteen years.

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

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 no over/underpayment to the School for the year ended June 30, 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.

Amounts awarded under state grants and entitlements for the 2003 school year totaled $188,908.

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 carrying amount of cash at June 30, 2003 was as follows:

Demand deposits	$49,522

Deposits: Deposits are insured by the Federal Depository Insurance Corporation.

The School did not have any investments during the year.

4. FIXED ASSETS

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

	Balance 7/1/2002	Additions	Retirements	Balance 6/30/2003
Furniture & Equipment	$25,550	1,688		$27,238
Leasehold Improvements	13,500	-	13,500	-
Total	$39,050	1,688	13,500	$27,238
Less: Accumulated Depreciation	(3,506)	4,716		(8,222)
Net Fixed Assets	$35,544			$19,016

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 2003.

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, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (614) 222-5853.

6. DEFINED BENEFIT PENSION PLANS (Continued)

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 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 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 years ended June 30, 2003 and 2002 were $46,159 and $60,368; 74.9 percent has been contributed for fiscal year 2003 and 100% for fiscal year 2002. The unpaid contribution for fiscal year 2003, in the amount of $11,546 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.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% 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 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, 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 DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years 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 DC Plan 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.

6. DEFINED BENEFIT PENSION PLANS (Continued)

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund the pension obligation. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2003 and 2002 were $63,490 and $56,640 respectively; 100 percent has been contributed for fiscal years 2003 and 2002. There were no contributions to the DC and Combined Plans for fiscal year 2003 made by the School and $12 was made by the plan members.

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 partial 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, 2003, 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 $14,837 for fiscal year 2003.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2003, the balance in the Fund was $2.8 billion. For the year ended June 30, 2003, net health care costs paid by STRS were $352,301,000 and STRS had 108,294 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, 2003, 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 2003, the minimum pay was established at $14,500. For the School, the amount contributed to fund health care benefits, including surcharge, during the 2003 fiscal year equaled $31,639.

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. 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, 2003.

9. PURCHASED SERVICES

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

Professional and Technical Services	$61,517
Other Purchased Services	57,228
Travel Mileage/Meeting Expense	50
Communications	952
Property Services	256,933
Total	$376,680

10. 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 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.

11. 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. At year end Mt. Calvary was due $254,648 for rent.

12. CHANGE IN SPONSORSHIP OF SCHOOL

At July 1, 2002 the Ohio Department of Education became the sponsor of the School through June 30, 2005.

13. DEFICIT FUND EQUITY

At year end, the School had a deficit fund equity balance of ($259,648). 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 withheld the School's state funding for the period of October, 2001 through March, 2002 pending resolution of the matter and this ultimately resulted in the School being unable to pay payroll taxes and operating expenses on its own. This lawsuit was resolved in March, 2002 with the State Education Department agreeing to sponsor the School until June 30, 2005. State funding was reinstated and payments have continued on a regular basis.

14. 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 was heard on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. No oral argument has been set to date. The effect of this suit, if any, on the School is not presently determinable.

15. 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.

16. MANAGEMENT'S PLANS REGARDING ACCUMULATED DEFICIT

The School has developed a plan to stabilize its financial position. The initial cause of the financial problem, which involved litigation concerning the sponsorship of the school as explained in Note 13, has been resolved. The School's plans include the preparation of a detailed operating budget which will allow for proper education of its students while generating a sufficient amount of cash flow to meet past due obligations. The Management of the School has negotiated payment terms with creditors to allow for the liquidation of debts within the parameters of the School's cash flows.

The School's management represents that as of March 31, 2006:

- It has negotiated repayment schedules with all tax authorities for past liabilities and is paying taxes currently.
- The past due rent to Mt. Calvary Pentecostal Church has been repaid.
- The unaudited cash balance as of March 31, 2006 is $206,840.

Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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 (the School) as of and for the year ended June 30, 2003, and have issued our report thereon dated April 5, 2006 in which we disclosed that the School was experiencing financial difficulty. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2003-001 through 2003-003.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable conditions described above are material weaknesses. In a separate letter to the School's management dated April 5, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Voinovich Government Center / 242 Federal Plaza W. / Suite 302 / Youngstown, OH 44503
Telephone: (330) 797-9900 (800) 443-9271 Fax: (330) 797-9949
www.auditor.state.oh.us

Compliance and Other Matters

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2003-001. In a separate letter to the School's management dated April 5, 2006, we reported other matters related to noncompliance we deemed immaterial.

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

Betty Montgomery

Betty Montgomery
Auditor of State

April 5, 2006

SCHEDULE OF FINDINGS
JUNE 30, 2003

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

FINDING NUMBER 2003-001

Finding for Recovery/Reportable Condition

The Lease agreement, Section 4.1, between lessor Mt. Calvary Pentecostal Church ("Mt. Calvary") and lessee Legacy Academy for Leaders & the Arts ("Legacy Academy") states that the cost of the following utilities and services shall be paid as follows:

Electricity and natural gas	to be paid by Lessor
Refuse Collection	to be paid by Lessor
Snow Removal	to be paid by Lessor
Landscape, Grounds keeping And Grass cutting	to be paid by Lessor
Water and Sewage Charge	to be paid by Lessor
Security System	to be paid by Lessor
Buildings and Grounds Maintenance	to be paid by Lessor
Telephone System	to be paid by Lessor

Also, in the lease, Mt. Calvary further agrees, per Section 10.1, to keep the Leased Premises clean, and to repair or replace all broken or damaged doors, windows, exposed plumbing fixtures and pipes, floor, stairways, railings, or other portions of the Leased Premises not resulting from Legacy Academy's negligence. Mt. Calvary also agrees to maintain the curbs and pavements in and about the Leased Premises, together with facilities appurtenant thereto, including entryways and awnings, if any.

Legacy Academy paid for electricity, paving work, installation of decks & steps, repair to the kitchen, tarpaulin installation, parking signs & post, and railing installation in the amount of $38,238.75. These items are all specifically mentioned in the lease as being Mt. Calvary's responsibility.

In accordance with the forgoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Mt. Calvary Pentecostal Church, in the amount of thirty eight thousand, two hundred, thirty-eight dollars and seventy-five cents ($38,238.75), and in favor of Legacy Academy for Leaders & the Arts' General Fund.

Furthermore, the above condition reflects that Legacy Academy has not properly monitored its lease payments made to Mt. Calvary for compliance with the terms of the lease agreement. It is recommended that Legacy Academy more closely review future lease payments it makes to Mt. Calvary so that this situation is corrected.

Officials' Response

The School will negotiate a new lease agreement with the Church to rectify the problem. It should be noted that the School was unable to pay the stated lease amount during the audit period. It owed the Church in excess of $250,000, so the payment of the utilities was meant to provide funding consistent with the School's cash flow.

The Church has agreed to reimburse the School for the utility payments.

FINDING NUMBER 2003-002

Reportable Condition

In the lease agreement signed between Legacy Academy for Leaders and the Arts ("Legacy Academy") and Mt. Calvary Pentecostal Church ("Mt. Calvary") for the use of church property for operating Legacy Academy, the following terms were noted in this related party transaction:

Section 3.2 The rent for the initial term and extended terms of the Lease shall be as follows:

a. Term of lease shall be five years. For the first year, the rent shall be $218,000, payable in monthly installments of $18,166.67, in advance on or before the first day of the month.

b. During the remaining four years of this Lease, the annual rent shall be $540,000, per annum, payable in monthly installments of $45,000, in advance on or before the first day of the month.

Legacy Academy was unable to provide documentation relevant to support the basis of these lease terms. At a minimum, the fair market value of similar leased space in the Youngstown area should have been obtained and applied to the square footage being used by Legacy Academy. The current cumulative yearly lease payments being made by Legacy Academy to Mt. Calvary well exceed the total fair market value of the property, as listed on the County Auditor's records, being leased.

We recommend that the Ohio Department of Education, Legacy Academy's sponsor, review the contract terms of this lease agreement to ensure the agreement's legality and appropriateness and to ensure that funding provided by the Ohio Department of Education to Legacy Academy is being properly utilized as it relates to Legacy Academy's current lease.

Officials' Response

The School will negotiate a new lease agreement with the Church consistent with market rental rates within the community.

FINDING NUMBER 2003-003

Reportable Condition

We noted the following difficulties in trying to perform the audit of the School:

a. The School did not provide cancelled checks for the audit period;
b. The School did not provide any invoices or receipts related to a number of expenditures made by the School, and;
c. The School's GAAP financial statements and related footnote disclosures required numerous corrections.

These difficulties lead to an inordinate amount of time being expended by the School and its officials to correct these discrepancies, which substantially delayed and hindered the completion of this audit.

FINDING NUMBER 2003-003
(Continued)

We recommend the following:

a. The School obtain copies of all cancelled checks for the respective audit period and maintain them for audit purposes;
b. The School maintain all original documentation relevant to any expenditures made, preferably with the corresponding check used for the payment, and;
c. The School provide a complete and accurate set of GAAP financial statements and footnote disclosures for audit purposes.

Officials' Response

The School has changed its banking relationship to include the return of copies of cancelled checks (front & back) with the bank statements. Our intention is to have all required information on-site and available for the next audit.

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
JULY 6, 2006