



Dave Yost • Auditor of State



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

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Directors:

We were engaged to audit the financial statements of Legacy Academy for Leaders and the Arts, Mahoning County, (the "School") as of and for the year ended June 30, 2005.

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* require us to obtain a written representation letter from management as part of our audit. We were unable to obtain this representation letter from the management of the School. As a result, we were unable to satisfy ourselves regarding the revenues, expenses and changes in net assets of the School for the year ended June 30, 2005.

Since we were unable to obtain the written representation letter described in the second paragraph above, the scope of our auditing procedures was not sufficient to enable us to express, and we do not express, an opinion on these financial statements.

As discussed in Note 15, the School's Board of Directors has made the decision that the School would terminate operations as of June 30, 2011 due to declining enrollment.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2011, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing.

A handwritten signature in black ink that reads "Dave Yost".

**Dave Yost**  
Auditor of State

June 27, 2011

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(UNAUDITED)**

Presented below is a discussion and analysis of Legacy Academy for Leaders & the Arts financial performance for the fiscal year ended June 30, 2005. The purpose of this discussion and analysis is to look at the School's financial performance as a whole. Readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the School's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government issued June, 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

**Financial Highlights**

- ✓ Total assets increased \$27,469 to a June 30 balance of \$171,738. This was due to an increase in the year end receivable and capital asset balances for the year.
- ✓ Total Liabilities increased \$152,271 to a year-end balance of \$785,356. The administration of the school is implementing efforts to reduce costs as a basis for reducing the liabilities of the school.

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows.

**Statement of Net Assets**

This statement was prepared using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

The following table provides a summary of the School's net assets for FY2005 and FY2004.

**(Table 1)**

<b>Net Assets</b>				
	<b>2005</b>	<b>2004</b>	<b>Change</b>	
Assets	\$			
Cash	35,522	33,349	2,173	
Accounts Receivable	73,124	70,893	2,231	
Capital Assets, Net	63,092	40,027	23,065	
Total Assets	171,738	144,269	27,469	

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(UNAUDITED)

<b>Liabilities</b>			
Accounts Payable	148,470	236,079	(87,609)
Rent Payable	328,182	60,682	267,500
Payroll Taxes	308,678	314,513	(5,835)
Intergovernmental Payable	26	21,811	(21,785)
	<hr/>		
Total Liabilities	785,356	633,085	152,271
 <b>Net Assets</b>			
Invested in Capital Assets	63,092	40,027	23,065
Unrestricted	(676,710)	(528,843)	(147,867)
	<hr/>		
Total Net Deficit	\$ (613,618)	(488,816)	(124,802)

Presented below is a summary of operating revenues and expenses for FY2005 and FY2004. The analysis explains the change in net assets for the two years presented.

**(Table 2)**

**Change in Net Assets**

	<b>2005</b>	<b>2004</b>	<b>Change</b>
<b>Operating Revenues</b>			
Lunchroom Receipts	4,961	6,230	(1,269)
Foundation payments	1,321,168	1,266,813	54,355
Disadvantaged Pupil Impact Aid	305,976	175,255	130,721
Special Education	20,869		20,869
Other	17,228	281	16,947
<b>Non-Operating Revenues</b>			
Federal & State Grants	<u>413,825</u>	<u>370,051</u>	<u>43,774</u>
Total Revenues	2,084,027	1,818,630	265,397
 <b>Operating Expenses</b>			
Salaries & Wages	1,023,827	1,248,510	(224,683)
Fringe Benefits	275,663	244,841	30,822
Purchased Services	730,470	390,168	340,302
Materials & Supplies	88,553	95,954	(7,401)
Cost of Lunchroom	70,423	57,374	13,049
Depreciation	13,736	7,970	5,766
Other	6,157	1,986	4,171
	<hr/>		
Total Expenses	2,208,829	2,046,803	162,026
 <i>Change in Net Assets</i>	 (124,802)	 (228,173)	 103,371



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(UNAUDITED)**

Net assets decreased \$124,802 during FY2005. Management hired additional purchased services trying to reduce the amount of employees and related expenditures. Purchased services increased 87%. Revenues during the period only increased by 15%. This resulted in the decrease to net assets. Management's plans are to obtain more students and successfully address the educational concerns of the school.

**Capital Assets**

**(Table 3)**

**Capital Assets at June 30,  
2005 (Net of Depreciation)**

	<b>2005</b>	<b>2004</b>
Furniture and Equipment	93,020	56,219
Less: Accumulated Depreciation	<u>(29,928)</u>	<u>(16,192)</u>
	<u>63,092</u>	<u>40,027</u>

At the end of the fiscal year 2005, the School had \$63,092 invested in furniture and equipment. The increase in capital assets during the fiscal year was due to additional purchases being made of other equipment. For additional information on the School's capital assets, see Note 5 of the basic financial statements.

**Contacting the School's Financial Management**

This financial report is designed to provide our citizen's with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have any questions about this report or need additional information contact Mr. Carl W. Shye, Jr., Treasurer at Legacy Academy for Leaders & the Arts, 1812 OakHill Avenue, Youngstown, OH 44507, or e-mail at [Carl@CarlShye.com](mailto:Carl@CarlShye.com).

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**Legacy Academy for Leaders & the Arts**  
**Mahoning County**  
Statement of Net Assets  
June 30, 2005

**Assets**

*Current Assets:*

Cash	\$ 35,522
Receivables:	
Intergovernmental	2,231
Due from Mt. Calvary	<u>70,893</u>
Total Current Assets	108,646

*Noncurrent Assets*

Depreciable Capital Assets, Net	<u>63,092</u>
Total Assets	<u><u>171,738</u></u>

**Liabilities**

*Current Liabilities:*

Accounts Payable	148,470
Rent Payable	328,182
Payroll Taxes	308,678
Intergovernmental Payables	<u>26</u>
	785,356

**Net Assets**

Invested in Capital Assets	63,092
Unrestricted Net Assets	<u>(676,710)</u>
Total Net Assets	<u><u>(613,618)</u></u>

*See accompanying notes to the basic financial statements.*

**Legacy Academy for Leaders & the Arts**  
**Mahoning County**  
Statement of Revenues, Expenses and Changes in Net Assets  
For the Fiscal Year Ended June 30, 2005

<b>Operating Revenues</b>	
Student Lunchroom Receipts	\$ 4,961
Foundation Payments	1,321,168
Disadvantaged Pupil Impact Aid	305,976
Special Education	20,869
Other Revenues	<u>17,228</u>
<i>Total Operating Revenues</i>	<u>1,670,202</u>
<b>Operating Expenses</b>	
Salaries	\$ 1,023,827
Fringe Benefits	275,663
Purchased Services	730,470
Materials and Supplies	88,553
Cost of Sales - Lunchroom	70,423
Depreciation	13,736
Other	<u>6,157</u>
<i>Total Operating Expenses</i>	<u>2,208,829</u>
<i>Operating (Loss)</i>	<u>(538,627)</u>
<b>Non-Operating Revenues</b>	
State and Federal Grants	\$ 325,730
Federal and State Meal Subsidies	78,471
Other - Grants	<u>9,624</u>
<i>Total Non-Operating Revenues</i>	<u>413,825</u>
Change in Net Assets	(124,802)
<i>Net Assets at Beginning of Year</i>	\$ <u>(488,816)</u>
<i>Net Assets at End of Year</i>	\$ <u><u>(613,618)</u></u>

*See accompanying notes to the basic financial statements.*

**Legacy Academy for Leaders & the Arts**  
**Mahoning County**  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2005

Increase (Decrease) in Cash and Cash Equivalents

**Cash Flows from Operating Activities**

Cash Received from State of Ohio	\$ 1,318,937
Cash Received from Special Education	20,869
Cash Received from Customers	4,961
Cash Received from Disadvantaged Pupil Impact Aid	305,976
Cash Received from Other Operating Revenues	17,228
Cash Payments for Purchased Services	(550,579)
Cash Payments for Goods and Services	(158,976)
Cash Payments to Employees for Services	(1,023,827)
Cash Payments for Employee Benefits	(303,283)
Other Operating Expenses	<u>(6,157)</u>

Net Cash Used for Operating Activities (374,851)

**Cash Flows from Noncapital Financing Activities**

Federal and State Subsidies Received	<u>413,825</u>
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Net Cash Provided by Noncapital Financing Activities 413,825

**Cash Flows from Capital and Related Financing Activities**

Acquisition of Capital Assets	<u>(36,801)</u>
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Net Cash Used for Capital and Related Financing Activities (36,801)

Net Decrease in Cash and Cash Equivalents 2,173

Cash and Cash Equivalents Beginning of Year 33,349

Cash and Cash Equivalents End of Year \$ 35,522

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

Operating Loss \$ (538,627)

**Adjustments to Reconcile Operating Loss to Net Cash  
Used in Operating Activities**

Depreciation 13,736

Changes in Assets and Liabilities:

Increase in Intergovernmental Receivable	(2,231)
Decrease in Accounts Payable	(87,609)
Increase in Rent Payable	267,500
Decrease in Payroll liabilities	(5,835)
Increase in Intergovernmental payables	<u>(21,785)</u>

Net Cash Used in Operating Activities \$ (374,851)

*See accompanying notes to the basic financial statements.*

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005**

**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 Educational Resource Consultants (the Sponsor) for a period of five academic years thru June 30, 2009. 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 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 16 certificated full-time teaching personnel who provide services to 200 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 most 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 BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005**

**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 in addition to preparing a five year forecast which is to be updated on an annual basis.

**D. Cash**

All monies received by the School are maintained in a separate account in the School's name.

**E. Capital Assets and Depreciation**

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values on 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 capital assets are depreciated over fifteen years.

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

**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.



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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

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 an overpayment to the School in the amount of \$2,231 for the year ended June 30, 2005.

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. ACCOUNTABILITY & COMPLIANCE**

**Change in Accounting Principles**

For fiscal year 2005, the School has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures". GASB Statement No. 40 establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. GASB Statement No. 40 also establishes and modifies disclosure requirements for custodial credit risk on deposits.

The implementation of GASB Statement No. 40 did not have an effect on the basic financial statements of the School, however additional note disclosure can be found in Note 4.

**4. DEPOSITS AND INVESTMENTS**

At June 30, 2005, the carrying amount of all School deposits was \$35,522. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$35,522 of the School's bank balance was covered by Federal Deposit Insurance Corporation.

The School did not have any investments during the year.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005**

**5. CAPITAL ASSETS**

A summary of the School's fixed assets at June 30, 2005 follows:

	<u>Balance</u> <u>7/1/2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>6/30/2005</u>
Furniture & Equipment	\$56,219	36,801		\$93,020
Less: Accumulated Depreciation	(16,192)	(13,736)		(29,928)
Net Fixed Assets	<u>\$40,027</u>	<u>23,065</u>		<u>\$63,092</u>

**6. RISK MANAGEMENT**

**A. Property and Liability**

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. For fiscal year 2005, the School contracted with Auto-Owners Mutual Insurance Company for general and professional liability insurance with a \$2,000,000 each occurrence limit, \$2,000,000 annual aggregate with a \$1,000 deductible and for business personal property with a limit of \$30,000. No claims have been made by the School as of June 30, 2005.

**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.

**7. 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.

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School 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 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005**

**7. DEFINED BENEFIT PENSION PLANS - (Continued)**

The School's required contribution for pension obligations to SERS for the fiscal year ended June 30, 2005, 2004 and 2003 were \$65,112, \$72,098, \$46,159, respectively; 100 percent has been contributed for fiscal year 2005, 2004 and 2003.

**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 to members and death and survivor benefits to members and beneficiaries. STRS issues a publicly available, stand-alone 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 43215-3371, by calling (614) 227-4090, or by visiting the STRS website at [www.strsoh.org](http://www.strsoh.org).

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. Existing members with less than five years of service credit as of June 21, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired December 31, 2001. 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.

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. 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, 2005, 2004 and 2003 were \$75,560, \$106,822 and \$63,490 respectively; 100 percent has been contributed for fiscal years 2005, 2004 and 2003.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005**

**8. POSTEMPLOYMENT BENEFITS**

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

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio 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, 2005, the State Teachers Retirement Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School, this amount equaled \$707 for fiscal year 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion at June 30, 2004 (the latest information available). For the fiscal year ended June 30, 2004 (the latest information available), net health care costs paid by STRS were \$268,739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% by those who apply.

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 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. 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 2005, the minimum pay has been established at \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2005 fiscal year, the School paid \$28,894 to fund health care benefits, including the surcharge.

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, before premium deduction. Gross expenses for health care at June 30, 2004 (the latest information available) were \$223.444 million and the target level was \$335.2 million. At June 30, 2004 (the latest information available) SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005**

**9. CONTINGENCIES**

**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, 2005.

**10. PURCHASED SERVICES**

For the year ended June 30, 2005, purchased service expenses were payments for services rendered by various vendors as follows:

Professional and Technical Services	\$115,562
Other Purchased Services	23,348
Advertising	5,814
Food Services	70,423
Communications	35,502
Property Services	<u>479,821</u>
Total	<u>\$730,470</u>

**11. 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. The School paid \$211,818 during the fiscal year and owed \$328,182 at year end which is reflected in rent payable.

**12. RELATED PARTY TRANSACTIONS**

Edward Bolling, Sr. is Business Manager 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 \$328,182 for rent.

Calvary Publications is owned by Mt. Calvary Pentecostal Church whose offices house a number of employees who also work for both entities. Legacy Academy for Leaders & the Arts paid Calvary Publications \$1,073 in 2005.

**13. DEFICIT FUND EQUITY**

At year end, the School had a deficit fund equity balance of (\$613,618). Management is planning to seek alternative funding sources and to decrease expenses.

**14. 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 BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005**

**15. SUBSEQUENT EVENT**

At the School's June 2, 2011 board meeting, the Board of Directors decided to close the School as of June 30, 2011 as a result of declining enrollment.



# Dave Yost • Auditor of State

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

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

To the Board of Directors:

We were engaged to audit the financial statements of Legacy Academy for Leaders and the Arts, Mahoning County (the "School") as of and for the year ended June 30, 2005 and have issued our report thereon dated June 27, 2011, in which we disclaimed an opinion upon the financial statements because we were unable to obtain a written representation letter from the School. At the School's June 2, 2011 board meeting, the Board of Directors made the decision that the School would terminate operations as of June 30, 2011 due to declining enrollment.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the School's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses and another deficiency we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider findings 2005-014 and 2005-017 described in the accompanying schedule of findings to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2005-015 described in the accompanying schedule of findings to be a significant deficiency.

### **Compliance and Other Matters**

To the extent possible, 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 instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2005-001 through 2005-013 and 2005-016.

We also noted certain matters not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated June 27, 2011.

The School's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the School's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of management, the Board of Directors, the Community School's sponsor, and others within the School. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State

June 27, 2011



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

**SCHEDULE OF FINDINGS  
JUNE 30, 2005**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2005-001**

**Finding for Recovery**

Legacy Academy for Leaders and the Arts entered into a lease agreement with Mt. Calvary Pentecostal Church on September 16, 2002. Such Lease agreement states in Section 4.1 that Mt. Calvary Penecostal Church (the "Lessor") shall be responsible for the cost of the following utilities and services:

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

Additionally, per Section 10.1, Mt. Calvary Pentecostal Church agreed 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 negligence on the part of Legacy Academy for Leaders and the Arts (the "Lessee"). Lessor 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.

A review of the financial records of Legacy Academy for Leaders and the Arts shows that the Academy paid for electricity and telephone in the amount of \$30,403. As stated above, the Lease Agreement between the parties indicates that Mt. Calvary Pentecostal Church shall be responsible for these costs.

The checks in question were signed by Ed Bolling, Business Manager, Jerry McKinney, Board Member and Carl Shye, Fiscal Officer.

In accordance with the foregoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Mt. Calvary Pentecostal Church in the amount of \$30,403 and in favor of the Legacy Academy for Leaders and the Arts.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is liable for the amount of the expenditure. Seward v. National Surety Corp., 120 Ohio St. 47 (1929); 1980 Op. Atty Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex. Rel. Village of Linndale v. Masten, 18 Ohio St. 3d 228 (1985). Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen. Public officials will be liable if and to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property, 1980 OP. Atty Gen. No. 80-074.

Accordingly, Ed Bolling, Business Manager, Jerry McKinney, Board Member and Carl Shye, Fiscal Officer will be jointly and severally liable in the amount of \$30,403 and in favor of the Legacy Academy for Leaders and the Arts.

**FINDING NUMBER 2005-001  
 (Continued)**

Ed Bolling, Business Manager, Jerry McKinney, Board Member and Carl Shye, Fiscal Officer will be liable only to the extent that payment is not made by Mt. Calvary Pentecostal Church.

**Officials' Response**

We did not receive a response from Officials to this finding.

**FINDING NUMBER 2005-002**

**Finding for Recovery**

**Ohio Revised Code Section 3314.03(A)(11)(d)** requires that each contract entered into between a sponsor and the governing authority of a community school shall specify that the school will comply with Section 149.43 of the Ohio Revised Code. Ohio Revised Code Section 149.43(B) states, in part, that all public records shall be promptly prepared and made available for inspection to a person at all reasonable times during regular business hours. In order to facilitate broader access to public records, public offices shall maintain public records in a manner that they can be made available for inspection in accordance with this division.

During the 2004-2005 school year, Legacy Academy for Leaders and the Arts made two payments to Mt. Calvary Pentecostal Church for which no supporting documentation was on file, proper approval of the Governing Board could not be verified, and the purpose or necessity for the expenditure was not documented. This missing documentation should have included invoices from Mt. Calvary Pentecostal Church, as well as other documentation supporting the payments. These payments are detailed below:

DATE	CHECK NUMBER	AMOUNT	PURPOSE
08/02/04	3907	\$ 6,897.88	Administrative services for June and July
06/07/05	5156	165.00	Reimburse bank fees
		<u>\$7,062.88</u>	

Without appropriate documentation, it is not possible to determine if the expenditures were made for a proper public purpose. The failure to maintain adequate support for expenditures could result in a loss of accountability over the School's finances, making it difficult to identify errors which could go undetected, and could possibly result in expenditures that are not for a proper public purpose.

The checks in question were signed by Ed Bolling, Business Manager, Jerry McKinney, Board Member, and Carl Shye, Fiscal Officer.

In accordance with the foregoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Mt. Calvary Pentecostal Church in the amount of \$7,062.88 and in favor of the Legacy Academy for Leaders and the Arts.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is liable for the amount of the expenditure. Seward v. National Surety Corp., 120 Ohio St. 47 (1929); 1980 Op. Atty Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex. Rel. Village of Linndale v. Masten, 18 Ohio St. 3d 228 (1985). Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen. Public officials will be liable if and to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property, 1980 OP. Atty Gen. No. 80-074.

**FINDING NUMBER 2005-002  
 (Continued)**

Accordingly, Ed Bolling, Business Manager, Jerry McKinney, Board Member and Carl Shye, Fiscal Officer are jointly and severally liable in the amount of \$7,062.88 and in favor of the Legacy Academy for Leaders and the Arts.

Ed Bolling, Business Manager, Jerry McKinney, Board Member and Carl Shye, Fiscal Officer will be liable only to the extent that payment is not made by Mt. Calvary Pentecostal Church.

**Official's Response**

We did not receive a response from Officials to this finding.

**FINDING NUMBER 2005-003**

**Finding for Recovery**

**Ohio Revised Code Section 3314.03(A)(11)(d)** requires that each contract entered into between a sponsor and the governing authority of a community school shall specify that the school will comply with Section 149.43 of the Ohio Revised Code. Ohio Revised Code Section 149.43(B) states, in part, that all public records shall be promptly prepared and made available for inspection to a person at all reasonable times during regular business hours. In order to facilitate broader access to public records, public offices shall maintain public records in a manner that they can be made available for inspection in accordance with this division.

During the 2004-2005 school year, Legacy Academy for Leaders and the Arts made seven payments to Joyce Baldwin, Principal. No supporting documentation was on file, proper approval of the Governing Board could not be verified, and the purpose or necessity for the expenditure was not documented. This missing documentation should have included invoices, receipts or bills, as well as other documentation supporting the payment. These payments are detailed below.

DATE	CHECK NUMBER	AMOUNT	PURPOSE
07/29/04	3904	\$ 37.95	Reimbursement for postage
08/03/04	3913	100.00	Gas expense for two cars
08/23/04	3947	375.00	Supposed to be divided into 15 - \$25 stipends for teachers
10/07/04	5785	325.00	No supporting documentation
01/13/05	4484	125.00	Refreshments
05/30/05	5145	43.40	Mileage reimbursement
06/09/05	5679	975.60	No supporting documentation
		<u>\$1,981.95</u>	

Without appropriate documentation, it is not possible to determine if the expenditures were made for a proper public purpose. The failure to maintain adequate support for expenditures could result in a loss of accountability over the School's finances, making it difficult to identify errors which could go undetected, and possibly result in expenditures that are not for a proper public purpose.

The checks in question were signed by Ed Bolling, Business Manager, Jerry McKinney, Board Member, and Carl Shye, Fiscal Officer.

In accordance with the foregoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Joyce Baldwin, Principal, in the amount of \$1,981.95 and in favor of the Legacy Academy for Leaders and the Arts.

**FINDING NUMBER 2005-003  
 (Continued)**

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is liable for the amount of the expenditure. Seward v. National Surety Corp., 120 Ohio St. 47 (1929); 1980 Op. Atty Gen. No. 80-074: Ohio Rev. Code Section 9.39; State, ex. Rel. Village of Linndale v. Masten, 18 Ohio St. 3d 228 (1985). Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen. Public officials will be liable if and to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property, 1980 OP. Atty Gen. No. 80-074.

Accordingly, Ed Bolling, Business Manager, Jerry McKinney, Board Member and Carl Shye, Fiscal Officer are jointly and severally liable in the amount of \$1,981.95 and in favor of the Legacy Academy for Leaders and the Arts.

Ed Bolling, Business Manager, Jerry McKinney, Board Member and Carl Shye, Fiscal Officer will be liable only to the extent that payment is not made by Joyce Baldwin, Principal.

**Official's Response**

We did not receive a response from Officials to this finding.

**FINDING NUMBER 2005-004**

**Finding for Recovery**

**Ohio Revised Code Section 3314.03(A)(11)(d)** requires that each contract entered into between a sponsor and the governing authority of a community school shall specify that the school will comply with Section 149.43 of the Ohio Revised Code. Ohio Revised Code Section 149.43(B) states, in part, that all public records shall be promptly prepared and made available for inspection to a person at all reasonable times during regular business hours. In order to facilitate broader access to public records, public offices shall maintain public records in a manner that they can be made available for inspection in accordance with this division.

During the 2004-2005 school year, Legacy Academy for Leaders and the Arts made ten reimbursements to Carl Sims, Classroom Teacher. No supporting documentation was on file, proper approval of the Governing Board could not be verified, and the purpose or necessity for the expenditure was not documented. This missing documentation should have included invoices, receipts or bills, as well as other documentation supporting the payment. These payments are detailed below.

DATE	CHECK NUMBER	AMOUNT	PURPOSE
07/26/04	3888	\$ 343.18	Reimbursement for Far East Region Program and Lunch Program
08/17/04	3945	14.00	2 Bus pass booklets
09/09/04	3988	118.58	Reimburse for Giant Eagle, Sparkle, Office Max and Sam's Club
11/05/04	4195	107.04	Reimburse for window coverings
11/23/04	4249	70.58	Reimburse for wireless router and printer driver
03/09/05	4693	117.40	Purchase of juice and crackers
03/25/05	4769	129.14	No supporting documentation
03/22/05	4789	117.40	Purchase of juice and crackers
04/18/05	4946	117.40	No supporting documentation
06/09/05	5677	48.42	Meal reimbursement
		<u>\$ 1,183.14</u>	

**FINDING NUMBER 2005-004  
 (Continued)**

Without appropriate documentation, it is not possible to determine if the expenditures were made for a proper public purpose. The failure to maintain adequate support for expenditures could result in a loss of accountability over the School's finances, making it difficult to identify errors which could go undetected, and possibly result in expenditures that are not for a proper public purpose.

The checks in question were signed by Ed Bolling, Business Manager, Jerry McKinney, Board Member and Carl Shye, Fiscal Officer.

In accordance with the foregoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Carl Sims, Classroom Teacher, in the amount of \$1,183.14 and in favor of the Legacy Academy for Leaders and the Arts.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is liable for the amount of the expenditure. Seward v. National Surety Corp., 120 Ohio St. 47 (1929); 1980 Op. Atty Gen. No. 80-074: Ohio Rev. Code Section 9.39; State, ex. Rel. Village of Linndale v. Masten, 18 Ohio St. 3d 228 (1985). Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen. Public officials will be liable if and to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property, 1980 OP. Atty Gen. No. 80-074.

Accordingly, Ed Bolling, Business Manager, Jerry McKinney, Board Member, and Carl Shye, Fiscal Officer are jointly and severally liable in the amount of \$1,183.14 and in favor of the Legacy Academy for Leaders and the Arts.

Ed Bolling, Business Manager, Jerry McKinney, Board Member, and Carl Shye, Fiscal Officer will be liable only to the extent that payment is not made by Carl Sims, Classroom Teacher.

**Official's Response**

We did not receive a response from Officials to this finding.

**FINDING NUMBER 2005-005**

**Finding for Recovery**

**Ohio Revised Code Section 3314.03(A)(11)(d)** requires that each contract entered into between a sponsor and the governing authority of a community school shall specify that the school will comply with Section 149.43 of the Ohio Revised Code. Ohio Revised Code Section 149.43(B) states, in part, that all public records shall be promptly prepared and made available for inspection to a person at all reasonable times during regular business hours. In order to facilitate broader access to public records, public offices shall maintain public records in a manner that they can be made available for inspection in accordance with this division.

During the 2004-2005 school year, Legacy Academy for Leaders and the Arts made one payment to George Green. No supporting documentation was on file, proper approval of the Governing Board could not be verified, and the purpose or necessity for the expenditure was not documented. This missing documentation should have included invoices, receipts or bills, as well as other documentation supporting the payment. This payment is detailed below.

DATE	CHECK NUMBER	AMOUNT	PURPOSE
11/01/04	4191	\$ 253.10	No supporting Documentation

**FINDING NUMBER 2005-005  
 (Continued)**

Without appropriate documentation, it is not possible to determine if the expenditure was made for a proper public purpose. The failure to maintain adequate support for expenditures could result in a loss of accountability over the School's finances, making it difficult to identify errors which could go undetected, and possibly result in expenditures that are not for a proper public purpose.

The check in question was signed by Ed Bolling, Business Manager, and Jerry McKinney, Board Member.

In accordance with the foregoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against George Green in the amount of \$253.10 and in favor of the Legacy Academy for Leaders and the Arts.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is liable for the amount of the expenditure. Seward v. National Surety Corp., 120 Ohio St. 47 (1929); 1980 Op. Atty Gen. No. 80-074: Ohio Rev. Code Section 9.39; State, ex. Rel. Village of Linndale v. Masten, 18 Ohio St. 3d 228 (1985). Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen. Public officials will be liable if and to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property, 1980 OP. Atty Gen. No. 80-074.

Accordingly, Ed Bolling, Business Manager, and Jerry McKinney, Board Member, are jointly and severally liable in the amount of \$253.10 and in favor of the Legacy Academy for Leaders and the Arts.

Ed Bolling, Business Manager and Jerry McKinney, Board Member will be liable only to the extent that payment is not made by George Green.

**Official's Response**

We did not receive a response from Officials to this finding.

**FINDING NUMBER 2005-006**

**Finding for Recovery**

**Ohio Revised Code Section 3314.03(A)(11)(d)** requires that each contract entered into between a sponsor and the governing authority of a community school shall specify that the school will comply with Section 149.43 of the Ohio Revised Code. Ohio Revised Code Section 149.43(B) states, in part, that all public records shall be promptly prepared and made available for inspection to a person at all reasonable times during regular business hours. In order to facilitate broader access to public records, public offices shall maintain public records in a manner that they can be made available for inspection in accordance with this division.

During the 2004-2005 school year, Legacy Academy for Leaders and the Arts made four payments to Karla Randall, Family Advocate. No supporting documentation was on file, proper approval of the Governing Board could not be verified, and the purpose or necessity for the expenditure was not documented. This missing documentation should have included invoices, receipts or bills, as well as other documentation supporting the payment. These payments are detailed below.

DATE	CHECK NUMBER	AMOUNT	PURPOSE
08/23/04	3948	\$800.00	No supporting documentation
02/02/05	4542	50.00	MCESC meeting
05/23/05	5099	261.66	Wingate Inn and mileage
06/09/05	5680	48.44	No supporting documentation
		\$1,160.10	

**FINDING NUMBER 2005-006  
(Continued)**

Without appropriate documentation, it is not possible to determine if the expenditures were made for a proper public purpose. The failure to maintain adequate support for expenditures could result in a loss of accountability over the School's finances, making it difficult to identify errors which could go undetected, and possibly result in expenditures that are not for a proper public purpose.

The checks in question were signed by Ed Bolling, Business Manager, Jerry McKinney, Board Member, and Carl Shye, Fiscal Officer.

In accordance with the foregoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Karla Randall, Family Advocate, in the amount of \$1,160.10 and in favor of the Legacy Academy for Leaders and the Arts.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is liable for the amount of the expenditure. Seward v. National Surety Corp. 120 Ohio St. 47 (1929); 1980 Op. Atty Gen. No. 80-074: Ohio Rev. Code Section 9.39; State, ex. Rel. Village of Linndale v. Masten, 18 Ohio St. 3d 228 (1985). Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen. Public officials will be liable if and to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property, 1980 OP. Atty Gen. No. 80-074.

Accordingly, Ed Bolling, Business Manager, Jerry McKinney, Board Member, and Carl Shye, Fiscal Officer are jointly and severally liable in the amount of \$1,160.10 and in favor of the Legacy Academy for Leaders and the Arts.

Ed Bolling, Business Manager, Jerry McKinney, Board Member, and Carl Shye, Fiscal Officer will be liable only to the extent that payment is not made by Karla Randall, Family Advocate.

**Official's Response:**

We did not receive a response from Officials to this finding.

**FINDING NUMBER 2005-007**

**Finding for Recovery**

**Ohio Revised Code Section 3314.03(A)(11)(d)** requires that each contract entered into between a sponsor and the governing authority of a community school shall specify that the school will comply with Section 149.43 of the Ohio Revised Code. Ohio Revised Code Section 149.43(B) states, in part, that all public records shall be promptly prepared and made available for inspection to a person at all reasonable times during regular business hours. In order to facilitate broader access to public records, public offices shall maintain public records in a manner that they can be made available for inspection in accordance with this division.

During the 2004-2005 school year, Legacy Academy for Leaders and the Arts made one payment to Lori Voytko, Classroom Teacher. No supporting documentation was on file, proper approval of the Governing Board could not be verified, and the purpose or necessity for the expenditure was not documented. This missing documentation should have included invoices, receipts or bills, as well as other documentation supporting the payment. This payment is detailed below.

**FINDING NUMBER 2005-007  
 (Continued)**

DATE	CHECK NUMBER	AMOUNT	PURPOSE
02/11/05	4560	\$185.00	Mileage and Parking

Without appropriate documentation, it is not possible to determine if the expenditure was made for a proper public purpose. The failure to maintain adequate support for expenditures could result in a loss of accountability over the School's finances, making it difficult to identify errors which could go undetected, and possibly result in expenditures that are not for a proper public purpose.

The checks in question were signed by Ed Bolling, Business Manager and Jerry McKinney, Board Member.

In accordance with the foregoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Lori Voytko, Classroom Teacher, in the amount of \$185 and in favor of the Legacy Academy for Leaders and the Arts.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is liable for the amount of the expenditure. Seward v. National Surety Corp., 120 Ohio St. 47 (1929); 1980 Op. Atty Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex. Rel. Village of Linndale v. Masten, 18 Ohio St. 3d 228 (1985). Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen. Public officials will be liable if and to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property, 1980 OP. Atty Gen. No. 80-074.

Accordingly, Ed Bolling, Business Manager and Jerry McKinney, Board Member are jointly and severally liable in the amount of \$185 and in favor of the Legacy Academy for Leaders and the Arts.

Ed Bolling, Business Manager and Jerry McKinney, Board Member will be liable only to the extent that payment is not made by Lori Voytko, Classroom Teacher.

**Official's Response:**

We did not receive a response from Officials to this finding.

**FINDING NUMBER 2005-008**

**Finding for Recovery**

**Ohio Revised Code Section 3314.03(A)(11)(d)** requires that each contract entered into between a sponsor and the governing authority of a community school shall specify that the school will comply with Section 149.43 of the Ohio Revised Code. Ohio Revised Code Section 149.43(B) states, in part, that all public records shall be promptly prepared and made available for inspection to a person at all reasonable times during regular business hours. In order to facilitate broader access to public records, public offices shall maintain public records in a manner that they can be made available for inspection in accordance with this division.

During the 2004-2005 school year, Legacy Academy for Leaders and the Arts made one payment to R. Preston. No supporting documentation was on file, proper approval of the Governing Board could not be verified, and the purpose or necessity for the expenditure was not documented. This missing documentation should have included invoices, receipts or bills, as well as other documentation supporting the payment. This payment is detailed below.



**FINDING NUMBER 2005-008**  
**(Continued)**

DATE	CHECK NUMBER	AMOUNT	PURPOSE
07/15/04	3858	\$1,390.00	No supporting documentation

Without appropriate documentation, it is not possible to determine if the expenditure was made for a proper public purpose. The failure to maintain adequate support for expenditures could result in a loss of accountability over the School's finances, making it difficult to identify errors which could go undetected, and possibly result in expenditures that are not for a proper public purpose.

The check in question was signed by Ed Bolling, Business Manager and Jerry McKinney, Board Member.

In accordance with the foregoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against R. Preston in the amount of \$1,390 and in favor of the Legacy Academy for Leaders and the Arts.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is liable for the amount of the expenditure. Seward v. National Surety Corp., 120 Ohio St. 47 (1929); 1980 Op. Atty Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex. Rel. Village of Linndale v. Masten, 18 Ohio St. 3d 228 (1985). Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen. Public officials will be liable if and to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property, 1980 OP. Atty Gen. No. 80-074.

Accordingly, Ed Bolling, Business Manager and Jerry McKinney, Board Member are jointly and severally liable in the amount of \$1,390 and in favor of the Legacy Academy for Leaders and the Arts.

Ed Bolling, Business Manager and Jerry McKinney, Board Member will be liable only to the extent that payment is not made by R. Preston.

**Official's Response:**

We did not receive a response from Officials to this finding.

**FINDING NUMBER 2005-009**

**Finding for Recovery**

**Ohio Revised Code Section 3314.03(A)(11)(d)** requires that each contract entered into between a sponsor and the governing authority of a community school shall specify that the school will comply with Section 149.43 of the Ohio Revised Code. Ohio Revised Code Section 149.43(B) states, in part, that all public records shall be promptly prepared and made available for inspection to a person at all reasonable times during regular business hours. In order to facilitate broader access to public records, public offices shall maintain public records in a manner that they can be made available for inspection in accordance with this division.

During the 2004-2005 school year, Legacy Academy for Leaders and the Arts issued numerous checks to various vendors for which there was no additional supporting documentation on file, proper approval of the Governing Board could not be verified, and the purpose or necessity for the expenditure was not documented. This missing documentation should have included invoices, receipts or bills, as well as other documentation supporting the payment. These payments are detailed below.

**FINDING NUMBER 2005-009  
 (Continued)**

DATE	CHECK NUMBER	AMOUNT	PAYEE
06/09/05	5678	31.03	Joni Byus
10/07/04	5786	1,864.75	Office Max
06/09/05	5683	12.96	Verlene Coward
06/09/05	5684	23.77	Vicki Sims
		<u>\$1,932.51</u>	

Without appropriate documentation, it is not possible to determine if the expenditures were made for a proper public purpose. The failure to maintain adequate support for expenditures could result in a loss of accountability over the School's finances, making it difficult to identify errors which could go undetected, and possibly result in expenditures that are not for a proper public purpose.

The checks in question were signed by Carl Shye, Fiscal Officer and Jerry McKinney, Board Member.

In accordance with the foregoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Carl Shye, Fiscal Officer, and Jerry McKinney, Board Member, in the amount of \$1,932.51 and in favor of the Legacy Academy for Leaders and the Arts.

**Official's Response:**

We did not receive a response from Officials to this finding.

**FINDING NUMBER 2005-010**

**Finding for Recovery**

**Ohio Revised Code Section 3314.03(A)(11)(d)** requires that each contract entered into between a sponsor and the governing authority of a community school shall specify that the school will comply with Section 149.43 of the Ohio Revised Code. Ohio Revised Code Section 149.43(B) states, in part, that all public records shall be promptly prepared and made available for inspection to a person at all reasonable times during regular business hours. In order to facilitate broader access to public records, public offices shall maintain public records in a manner that they can be made available for inspection in accordance with this division.

During the 2004-2005 school year, Legacy Academy for Leaders and the Arts issued numerous checks to various vendors for which there was no additional supporting documentation on file, proper approval of the Governing Board could not be verified, and the purpose or necessity for the expenditure was not documented. This missing documentation should have included invoices, receipts or bills, as well as other documentation supporting the payment. These payments are detailed below.

**FINDING NUMBER 2005-010**  
**(Continued)**

DATE	CHECK NUMBER	AMOUNT	PAYEE
12/02/04	4302	75.00	Amanda Sosnosky
04/15/05	4937	347.60	Clarion Hotel
07/29/04	3903	737.63	Consumer Communication Services, Inc.
09/27/04	4043	273.00	Drury Inns & Suites
04/07/05	4859	860.30	Drury Inns & Suites
02/11/05	4559	491.70	Hyatt on Capital Square
02/14/05	4606	290.40	Hyatt Regency Columbus
04/07/05	4860	317.00	Hyatt Regency Columbus
04/18/05	4945	34.00	Joyce Swierz
12/28/04	4419	111.00	Postmaster
04/18/05	4940	870.96	Radisson Hotel
08/03/04	3912	138.00	Ramada Plaza Hotel
05/30/05	5147	530.00	Residence Inn - Cleveland
10/28/04	4148	924.68	Staples Office Supplies
11/23/04	4247	229.99	Staples Office Supplies
07/26/04	3886	492.24	The Vindicator Printing Co., Inc.
08/13/04	3935	74.00	U.S. Postal Service
01/06/05	4435	74.00	U.S. Postal Service
08/06/04	3915	287.10	University Plaza Hotel
07/29/04	3902	504.00	Valley Graphics
05/18/05	5098	550.00	Valley Graphics
07/26/04	3896	385.84	WRBP
03/03/05	4679	420.00	Women's Committee For Children's Concerts
		<u>\$9,018.44</u>	

Without appropriate documentation, it is not possible to determine if the expenditures were made for a proper public purpose. The failure to maintain adequate support for expenditures could result in a loss of accountability over the School's finances, making it difficult to identify errors which could go undetected, and possibly result in expenditures that are not for a proper public purpose.

The checks in question were signed by Ed Bolling, Business Manager, Jerry McKinney, Board Member and Leonard Randall, Board Member.

In accordance with the foregoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Ed Bolling, Business Manager, Jerry McKinney, Board Member, and Leonard Randall, Board Member, in the amount of \$9,018.44 and in favor of the Legacy Academy for Leaders and the Arts.

**Official's Response:**

We did not receive a response from Officials to this finding.

### FINDING NUMBER 2005-011

#### Material Citation

**26 USCS Sections 3102 and 3402** require the employing government to withhold federal and employment-related taxes (such as Medicare and Social Security) from each employee. Furthermore, these chapters hold employers liable for reporting and payment of these taxes.

The School properly withheld Federal income taxes from employee payroll checks but did not file a return and remit the taxes to the Federal Government. The amount withheld from employees during fiscal year 2005 was \$111,475.00 (federal withholdings) and \$58,241.09 (FICA and Medicare withholdings) and for fiscal year 2004 the amount withheld was \$166,348.89 and \$44,861.33. With payments and adjustments made during 2005, the total amount due as of June 30, 2005 was \$95,524.44 (federal withholdings) and \$61,046.33 (FICA and Medicare).

We recommend that the School promptly pay the taxes that are withheld to avoid any penalties and interest that the taxing authority may impose on the School.

#### **Official's Response:**

We did not receive a response from Officials to this finding.

### FINDING NUMBER 2005-012

#### Material Citation

**Ohio Revised Code Section 5747.06** requires every employer, including political subdivisions, maintaining an office or transacting business within this state and making payment of any compensation to any employee who is a taxpayer shall deduct and withhold from such compensation for each payroll period a tax computed in such manner as to result, as far as practicable, in withholding from the employee's compensation during each calendar year an amount substantially equivalent to the tax reasonably estimated to be due from the employee under this chapter and Chapter 5748 of the Revised Code with respect to the amount of such compensation included in the employee's adjusted gross income during the calendar year.

**Ohio Revised Code Section 5747.07 (B)** states that, with certain exceptions, every employer required to deduct and withhold any amount under **Ohio Revised Code Section 5747.06** shall file a return and shall pay the amount required by law in accordance with guidelines provided by this section.

The School properly withheld Ohio income taxes from the employee's payroll checks but did not file a return and remit said taxes to the State of Ohio. The amount withheld from employees during fiscal year 2005 was \$28,638.85 and the amount withheld in fiscal year 2004 was \$51,190.81. With payments and adjustments made during 2005, the total amount due at June 30, 2005 was \$71,634.55.

We recommend that the School promptly pay the taxes that are withheld to avoid any penalties and interest that the taxing authority may impose on the School.

#### **Officials' Response:**

We did not receive a response from Officials to this finding.

### FINDING NUMBER 2005-013

#### Material Citation

**Youngstown City Codified Ordinance 181.06 (a)** states that in accordance with rules and regulations prescribed by the Director of Finance, each employer within or doing business within the City shall be deducted at the time of the payment of such salary, wage, commission, or other compensation, the tax of two and three-quarter percent (2 3/4 %) of the gross salaries, wages, commissions or other compensation due by the employer to the employee, less the credit provided by **Section 181.15**, and shall, on or before the last day of the month following the close of each calendar quarter make a return and pay to the Director the amount of taxes so deducted. Such returns shall be on a form or forms prescribed by or acceptable to the Director and shall be subject to the rules and regulations prescribed therefore by the Director. Such employer shall be liable for the payment of the tax required to be deducted and withheld, whether or not such taxes have in fact been withheld.

The School properly withheld Youngstown City income taxes from employee payroll checks but did not file a return and remit said taxes to the City of Youngstown. The amount withheld from employees during fiscal year 2005 was \$27,624.63 and the amount withheld in 2004 was \$47,502.27 for a total due of \$75,126.90.

#### **Officials' Response:**

We did not receive a response from Officials to this finding.

### FINDING NUMBER 2005-014

#### Material Weakness

The School's annual financial report for 2005 contained errors which resulted in numerous reclassifications and adjustments to correctly report the financial activity during and at the end of the period as follows.

##### **Statement of Net Assets/Accumulated Deficit:**

- Receivables were understated \$11,015;
- Capital Assets were overstated \$22,173;
- Accounts payable were understated \$80,730;
- Rent Payable was understated \$219,197;

##### **Statement of Revenues, Expenses and Changes in Accumulated Deficit:**

- Foundation Receipts were overstated by \$6,092;
- Other Revenue was understated by \$2,850;
- Salaries Expense were understated by \$3,627;
- Fringe Benefits were understated by \$22,664;
- Purchased Services was understated \$240,368;
- Materials and Supplies were understated \$8,406;
- Cost of Sales – Lunchroom was understated \$70,423;
- Depreciation was understated \$13,736;
- Other Expenses were overstated \$10,517;
- State and Federal Grants were understated \$4,220;
- Other Non-Operating Revenue was understated \$65;
- Net Assets at Beginning of Year were overstated by \$33,354;

In addition, several errors were noted in the Management Discussion and Analysis (MD&A) and the Notes to the Financial Statements. Adjustments to correct the significant errors above are reflected in the financial statements, MD&A and notes.

**FINDING NUMBER 2005-014  
(Continued)**

Procedures should be developed and implemented to provide for the integrity of the financial records. Additionally, the amounts in the financial statements, notes to the financial statements, and MD&A should be supported by the appropriate documentation.

**Officials' Response**

We did not receive a response from Officials to this finding.

**FINDING NUMBER 2005-015**

**Significant Deficiency**

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.

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:**

We did not receive a response from Officials to this finding.

**FINDING NUMBER 2005-016**

**Material Citation**

**Ohio Revised Code Section 3314.011** states every community school established under this chapter shall have a designated fiscal officer. The Auditor of State may require by rule (see OAC 117-6-07 below) that the fiscal officer of any community School, before entering upon duties as the fiscal officer of the School, execute a bond in an amount and with surety to be approved by the governing authority of the School, payable to the state, conditioned for the faithful performance of all the official duties required of the fiscal officer. Any such bond shall be deposited with the governing authority of the School, and a copy thereof, certified by the governing authority, shall be filed with the county auditor.

**FINDING NUMBER 2005-016  
(Continued)**

Additionally, **Ohio Administrative Code Section 117-6-07** requires a community School fiscal officer to execute a bond prior to entering upon the duties of the fiscal officer as provided for in Ohio Revised Code Section 3314.011. The governing authority prescribes the bond amount and surety by resolution.

The School did not execute a bond for the Fiscal Officer. Additionally, the bond amount was not approved by the Board. This could result in the bond amount being inadequate and the School assuming unnecessary liability. The School should implement procedures to verify that the appointed fiscal officer is bonded and that the amount of the bond is adequate for the cash flow of the School.

**Officials' Response:**

We did not receive a response from Officials to this finding.

**FINDING NUMBER 2005-017**

**Material Weakness**

The School did not maintain strong monitoring controls, nor did they utilize key performance indicators. Key performance indicators are information that Management utilizes to measure the financial performance related to the various operations of the School. Monitoring controls assist in the cash management function and should include the following:

- Regular review of budget and actual amounts;
- Regular review of financial report summaries of sufficient detail (monthly detailed revenue and expenditure reports);
- Review of revenues and expenditures with independently accumulated data/information (budgets, past performance);
- Review of monthly Bank reconciliations.

Failure of the Board to properly utilize and implement such monitoring controls could result in the Board being unaware of the performance and potential financial distress of the School. The School should develop and implement a monitoring control system over the revenues and expenditures of the School to verify that material misstatements do not occur and that liabilities will not be incurred that the School cannot meet. Additionally, the Board should request to review bank reconciliations at each monthly meeting and should continuously monitor its financial condition and adjust its plan accordingly. The Board should also implement procedures to verify that management is receiving timely and accurate information so that management is aware of the School's current financial situation.

**Officials' Response:**

We did not receive a response from Officials to this finding.

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

**SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2005**

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Fully Corrected?</b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid;</b>
<b>2004-001</b>	Finding for Recovery against Mt. Calvary Pentecostal Church – improper payments made to church based on lease agreement.	No	Finding has not been repaid.
<b>2004-002</b>	Finding for Recovery against Mt. Calvary Pentecostal Church – no supporting documentation for payments made.	No	Finding has not been repaid.
<b>2004-003</b>	Findings for Recovery against Mrs. Lott’s Food Service – double payment made.	No	Finding has not been repaid.
<b>2004-004</b>	Finding for Recovery against Carrie Sammartino – no supporting documentation for payment made.	No	Finding has not been repaid.
<b>2004-005</b>	Finding for Recovery against Cathy Reid-Moncrief – no supporting documentation for payment made.	No	Finding has not been repaid.
<b>2004-006</b>	Finding for Recovery against Joyce Baldwin – no supporting documentation for payments made.	No	Finding has not been repaid.
<b>2004-007</b>	Finding for Recovery against Karla Hoffman – no supporting documentation for payments made.	No	Finding has not been repaid.
<b>2004-008</b>	Finding for Recovery against Ed Bolling and Jerry McKinney – no supporting documentation for payments made.	Yes	Finding has been repaid.

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

**SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2005  
(Continued)**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid;
<b>2004-009</b>	26 USCS Sections 3102 and 3402 – School properly withheld federal income taxes from employees but failed to file a return and remit the taxes to the federal government.	No	Reissued as Finding Number 2005-011
<b>2004-010</b>	ORC Sections 5747.06 and 5747.07 (B) - School properly withheld Ohio income taxes from employees but failed to file a return and remit the taxes to the State of Ohio.	No	Reissued as Finding Number 2005-012
<b>2004-011</b>	Youngstown City Codified Ordinance 181.06 (a) and 181.15 - School properly withheld City of Youngstown income taxes from employees but failed to file a return and remit the taxes to the City of Youngstown	No	Reissued as Finding Number 2005-013
<b>2004-012</b>	A reportable condition was issued regarding the difficulties encountered in trying to perform the audit of the School.	No	Reissued as Finding Number 2005-015



# Dave Yost • Auditor of State

**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  
AUGUST 25, 2011**