# LEGACY ACADEMY FOR LEADERS AND THE ARTS
# MAHONING COUNTY

## REGULAR AUDIT

## FOR THE YEAR ENDED JUNE 30, 2004

Mary Taylor, CPA
Auditor of State

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

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**INDEPENDENT ACCOUNTANTS' REPORT**

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

To the Governing Board:

We have audited the accompanying financial statements of Legacy Academy for Leaders and the Arts, Mahoning County (the "School") as of and for the year ended June 30, 2004, which comprises the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of Legacy Academy for Leaders and the Arts, Mahoning County as of June 30, 2004, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2004, the School implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *"Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments"*, GASB Statement No. 37, *"Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus"*, and GASB Statement No. 38 *"Certain Financial Statement Note Disclosure"*.

As shown in the financial statements, the School has a working capital deficiency of $528,843 and has accumulated a deficit net assets of $488,816 at June 30, 2004. Management's plans in regards to these matters are discussed in Note 15.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2009 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. 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards.* You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Mary Taylor

**Mary Taylor, CPA**
Auditor of State

June 30, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(UNAUDITED)

Presented below is a discussion and analysis of Legacy Academy for Leaders and the Arts' financial performance for the fiscal year ended June 30, 2004. 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 $18,875 to a June 30 balance of $144,269. This was due to an increase in yearend receivable and capital asset balances for the year.

- ✓ Total Liabilities increased $248,043 to a year end balance of $633,085. 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 FY2004 and FY2003.

**(Table 1)**

**Net Assets**

| | 2004 | 2003 | Change |
|---|---|---|---|
| **Assets** | | | |
| Cash | $33,349 | $49,522 | ($16,173) |
| Accounts Receivable | 70,893 | 56,856 | 14,037 |
| Capital Assets, Net | 40,027 | 19,016 | 21,011 |
| Total Assets | $144,269 | $125,394 | $18,875 |
| **Liabilities** | | | |
| Current Liabilities | 633,085 | 385,042 | 248,043 |
| Total Liabilities | $633,085 | $385,042 | $248,043 |

| | | | |
|---|---|---|---|
| **Net Assets** | | | |
| Invested in Captial Assets | 40,027 | 19,016 | 21,011 |
| Unrestricted | (488,816) | (278,664) | (210,152) |
| Total Net Assets | ($448,789) | ($259,648) | ($189,141) |

Presented below is a summary of operating revenues and expenses for FY2004 and FY2003. The analysis explains the change in net assets for the two years presented.

**(Table 2)**

**Change in Net Assets**

| | 2004 | 2003 | Change |
|---|---|---|---|
| **Operating Revenues:** | | | |
| Charges for Services and Sales | $18,367 | $0 | $18,367 |
| Foundation payments | 1,254,676 | 1,140,812 | 113,864 |
| Disadvantaged Pupil Impact Aid | 175,255 | 171,819 | 3,436 |
| Other | 281 | 10,202 | (9,921) |
| **Non-Operating Revenues:** | | | |
| Federal and State Grants | 354,555 | 188,908 | 165,647 |
| Interest | | (10,642) | 10,642 |
| Other | 15,496 | | 15,496 |
| **Total Revenues** | $1,818,630 | $1,501,099 | $317,531 |

| | | | |
|---|---|---|---|
| **Operating Expenses** | | | |
| Salaries and Wages | 1,248,510 | 767,016 | 481,494 |
| Fringe Benefits | 244,841 | 129,884 | 114,957 |
| Purchased Services | 390,168 | 376,680 | 13,488 |
| Materials and Supplies | 95,954 | 78,710 | 17,244 |
| Cost of Sales – Lunchroom | 57,374 | 0 | 57,374 |
| Depreciation | 7,970 | 5,241 | 2,729 |
| Other | 1,986 | | 1,986 |
| **Total Expenses** | $2,046,803 | $1,357,531 | $689,272 |
| *Change in Net Assets* | ($228,173) | $143,568 | ($371,741) |

Net assets decreased $228,173 during FY2004. Management hired additional personnel in anticipation of increased enrollment and to address educational achievement issues with the school. Salaries increased by 63%. Revenues during the period increased only 21%. This resulted in the decrease to net assets. Management's plans are to correct the student/teacher ratio and successfully address the educational concerns of the school.

**Capital Assets**

**(Table 3)**
**Capital Assets at June 30, 2004 (Net of Depreciation)**

| | **2004** | **2003** |
|---|---|---|
| Furniture and Equipment | $56,219 | $27,238 |
| Less: Accumulated Depreciation | (16,192) | (8,222) |
| Net Capital Assets | $40,027 | $19,016 |

At the end of the fiscal year 2004, the School had $40,027 invested in furniture and equipment. The increase in capital assets during the fiscal year was due to additional purchases being made of furniture and 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 and the Arts, 1812 Oak Hill Avenue, Youngstown, OH 44507, or e-mail at Carl@CarlShye.com.

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

**STATEMENT OF NET ASSETS**
**JUNE 30, 2004**

| | | |
|---|---|---|
| **Assets** | | |
| *Current Assets:* | | |
| Cash | $ | 33,349 |
| Receivables: | | |
| Due from Mt. Calvary | | 70,893 |
| Total Current Assets | $ | 104,242 |
| *Noncurrent Assets* | | |
| Depreciable Capital Assets, Net | | 40,027 |
| Total Assets | $ | 144,269 |
| **Liabilities** | | |
| *Current Liabilities:* | | |
| Accounts Payable | $ | 236,079 |
| Rent Payable | | 60,682 |
| Payroll Taxes | | 314,513 |
| Intergovernmental Payables | | 21,811 |
| Total Liabilities | $ | 633,085 |
| **Net Assets** | | |
| Invested in Capital Assets | | 40,027 |
| Unrestricted Net Assets | | (528,843) |
| Total Net Assets | | (488,816) |

See accompanying notes to the basic financial statements.

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

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**
**JUNE 30, 2004**

| | |
|---|---|
| **Operating Revenues** | |
| Lunchroom receipts | $ 6,230 |
| Special Education | 12,137 |
| Foundation Payments | 1,254,676 |
| Disadvantaged Pupil Impact Aid | 175,255 |
| Other Revenues | 281 |
| *Total Operating Revenues* | $ 1,448,579 |
| **Operating Expenses** | |
| Salaries | $ 1,248,510 |
| Fringe Benefits | 244,841 |
| Purchased Services | 390,168 |
| Materials and Supplies | 95,954 |
| Cost of Sales - Lunchroom | 57,374 |
| Depreciation | 7,970 |
| Other | 1,986 |
| *Total Operating Expenses* | $ 2,046,803 |
| *Operating Loss* | (598,224) |
| **Non-Operating Revenues** | |
| State and Federal Grants | 354,555 |
| Other | 15,496 |
| *Total Non-Operating Revenues* | $ 370,051 |
| Change in Net Assets | $ (228,173) |
| *Net Assets at Beginning of Year* | (260,643) |
| *Net Assets at End of Year* | $ (488,816) |

See accompanying notes to the basic financial statements.

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

**STATEMENT OF CASH FLOWS**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

***Increase (Decrease) in Cash and Cash Equivalents***

| | | |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Cash Received from State of Ohio | | $ 1,254,676 |
| Cash Received from Customers | | 12,137 |
| Cash Received from Disadvantaged Pupil Impact Aid | | 175,255 |
| Cash Payments to Suppliers for Goods and Services | | (306,241) |
| Cash Payments to Employees for Services | | (1,248,510) |
| Cash Payments for Employee Benefits | | (244,841) |
| Other Operating Revenues | | 281 |
| Net Cash Used for Operating Activities | | $ (357,243) |
| **Cash Flows from Noncapital Financing Activities** | | |
| Federal and State Subsidies Received | | 370,051 |
| Net Cash Provided by Noncapital Financing Activities | | $ 370,051 |
| **Cash Flows from Capital and Related Financing Activities** | | |
| Acquistion of Capital Assets | | (28,981) |
| Net Cash Used for Capital and Related Financiang Activities | | (28,981) |
| Net Decrease in Cash and Cash Equivalents | | (16,173) |
| Cash and Cash Equivalents Beginning of Year | | 49,522 |
| Cash and Cash Equivalents End of Year | $ | 33,349 |
| **Reconciliation of Operating Loss to Net Cash Used in Operating Activities** | | |
| Operating Loss | $ | (598,224) |
| **Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities** | | |
| Depreciation | | 7,970 |
| Changes in Assets and Liabilities: | | |
| Increase in Due from Mt. Calvary | | (32,654) |
| Decrease in Intergovernmentable receivable | | 18,618 |
| Increase in Accounts Payable | | 225,251 |
| Increase in Payroll liabilities | | 222,226 |
| Decrease in Rent payable | | (193,966) |
| Decrease in Intergovernmental payables | | (6,464) |
| Net Cash Used in Operating Activities | $ | (357,243) |

See accompanying notes to the basic financial statements.

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## 1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Legacy Academy for Leaders and 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 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 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 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.

## 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 $143 for the year ended June 30, 2004.

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 2004 school year totaled $358,035.

### 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. CHANGES IN ACCOUNTING PRINCIPLE

### Changes in Accounting Principles and Restatement of Net Assets

For fiscal year 2004, the School has implemented GASB Statement No. 34, “Basic Financial Statements - and Management’s Discussion and Analysis – for State and Local Governments”, GASB Statement No. 37, “Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments: Omnibus”, Statement No. 38, “Certain Financial Statement Note Disclosures” and GASB Statement No. 39, “Determining Whether Certain Organizations are Component Units”.

GASB Statement No. 34 creates new basic financial statements for reporting on the School’s financial activities. The basic financial statements include government-wide financial statements prepared on the accrual basis of accounting.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management’s Discussion and Analysis, the classification of program revenues and the criteria for determining major funds.

GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

GASB Statement No. 39 states that entities for which primary government is not financially accountable may still be reported as component units based on the nature and significance of their relationship with the primary government. The implementation of GASB Statement No. 39 did not affect the reporting entity of the School.

The implementation of these changes had no effect on net assets as it was previously reported.

## 4. CASH

The carrying amount of cash at June 30, 2004 was as follows:

| | |
|---|---|
| Demand deposits | $33,349 |

**Deposits:** Deposits are insured by the Federal Depository Insurance Corporation and collateralized by the financial institution's public entity deposit pool.

The School did not have any investments during the year.

## 5. CAPITAL ASSETS

A summary of the School's capital assets at June 30, 2004 follows:

| | Balance 7/1/2003 | Additions | Retirements | Balance 6/30/2004 |
|---|---|---|---|---|
| Furniture and Equipment | $27,238 | $28,981 | | $56,219 |
| Less: Accumulated Depreciation | (8,222) | ( 7,970) | | (16,192) |
| Net Fixed Assets | $19,016 | $21,011 | | $40,027 |

## 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 2004, 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, 2004.

### 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'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 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 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 contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were $72,098, $46,159, and $60,368 respectively; 68.93 percent has been contributed for fiscal year 2004 and 100% for fiscal years 2003 and 2002. The unpaid contribution for fiscal year 2004, in the amount of $22,398 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. 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.

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

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, 2004, 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 the pension obligation. 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, 2004, 2003, and 2002 were $106,822, $63,490, and 56,640 respectively; 83.14% percent has been contributed for fiscal year 2004 and 100% has been contributed for fiscal years 2003 and 2002. The unpaid contribution for fiscal year 2004, in the amount of $18,006 is recorded as a liability.

## 8. 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, 2004, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled $7,630 for fiscal year 2004.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2004, the balance in the Fund was $3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS were $268,739,000 and STRS had 111,853 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.

## 8. POSTEMPLOYMENT BENEFITS - (Continued)

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, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll, a decrease of .92 percent from fiscal year 2003. 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 2004, the minimum pay was established at $25,400.

For the School, the amount contributed to fund health care benefits, including surcharge, during the 2004 fiscal year equaled $43,041.

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, 2004 were $223,443,805 and the target level was $335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of $300.8 million. SERS had approximately 62,000 participants currently receiving health care benefits.

## 9. CONTINGENCY - 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, 2004.

## 10. PURCHASED SERVICES

For the year ended June 30, 2004, purchased service expenses were payments for services rendered by various vendors as follows:

| | |
|---|---:|
| Professional and Technical Services | $132,844 |
| Other Purchased Services | 30,103 |
| Advertising | 1,914 |
| Communications | 4,605 |
| Property Services | 220,702 |
| Total | $390,168 |

## 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 $248,500 during the fiscal year and owed $60,682 at year end for prior year's rent which is reflected in rent payable and the balance of $154,364 of the current rent owed is reflected in accounts 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 $215,046 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 and the Arts paid Calvary Publications $5,752 in 2004.

## 13. DEFICIT UNRESTRICTED NET ASSETS

At year end, the School had a deficit unrestricted net assets balance of ($528,843). 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.

## 15. MANAGEMENT'S PLANS REGARDING ITS ACCUMULATED DEFICIT

The School has developed a plan to stabilize its financial position. 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 June 1, 2009:

- Repayment agreements have been negotiated with all tax authorities for past liabilities and the school is paying taxes currently.
- A repayment agreement with Mt. Calvary Pentecostal Church is being negotiated for past due rent.
- The unaudited cash balance as of June 1, 2009 is $4,239.

Mary Taylor, CPA
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 Governing Board:

We have audited the financial statements of Legacy Academy for Leaders and the Arts (the "School") as of and for the year ended June 30, 2004, which collectively comprise the School's basic financial statements and have issued our report thereon dated June 30, 2009 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 opinions on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2004-012.

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 condition described above is a material weakness. In a separate letter to the School's management dated June 30, 2009, 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 44503-1293
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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 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 2004-001 through 2004-011. In a separate letter to the School's management dated June 30, 2009, 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.

Mary Taylor

**Mary Taylor, CPA**
Auditor of State

June 30, 2009

**SCHEDULE OF FINDINGS**
**JUNE 30, 2004**

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

**FINDING NUMBER 2004-001**

**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 Pentecostal 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, floors, stairways, railings, or other portions of the Leased Premises not resulting from negligence on the part of Legacy Academy for Leaders and the Arts (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, paving work, installation of decks and steps, repair of the kitchen, tarpaulin installation, parking signs and post, and railing installation in the amount of $26,285.83. 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, Fiscal Officer/Administrator, and Jerry McKinney, Board Member.

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 strictly 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 secondarily 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.

In accordance with the forgoing 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, Ed Bolling, Fiscal Officer/Administrator, and Jerry McKinney, Board Member in the amount of $26,285.83 and in favor of the Legacy Academy for Leaders and the Arts.

**FINDING NUMBER 2004-001**
**(Continued)**

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

**Officials' Response**

The lease agreement with the School will be modified to reflect these items as being payable by the School. The modified agreement will be approved by the Board of Trustees. As for the finding for recovery, the Church has agreed to pay the balance noted above. The School will provide documentation acceptable to the auditor for these funds.

**FINDING NUMBER 2004-002**

**Finding for Recovery**

**Ohio Revised Code Section 149.351** states that all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commission.

During the 2003-2004 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 |
|---|---|---|---|
| 4/23/2004 | 3491 | $3,448.94 | Administrative services |
| 6/9/2004 | 3703 | 3,448.94 | Administrative services |
| | | $6,897.88 | |

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, Fiscal Officer/Administrator, and Jerry McKinney, Board Member.

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 strictly 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 secondarily 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.

In accordance with the forgoing 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, Ed Bolling, Fiscal Officer/Administrator, and Jerry McKinney, Board Member in the amount of $6,897.88 and in favor of the Legacy Academy for Leaders and the Arts.

**FINDING NUMBER 2004-002**
**(Continued)**

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

**Officials' Response**

The School will obtain reimbursement from Mt.Calvary and present documentation acceptable to the auditor to document the receipt.

**FINDING NUMBER 2004-003**

**Finding for Recovery**

Legacy Academy for Leaders and the Arts contracts with Mrs. Lott's Food Service for the provision of school meals. During the period of May 18th through May 24th, Legacy Academy purchased $1,875 worth of breakfast and lunch meals from Mrs. Lott's Food Service. Legacy Academy paid this amount to Mrs. Lott's Food Service in check number 3696. Legacy Academy, however, accidentally paid Mrs. Lott's Food Service a second time for the same service via check number 3699.

The checks in question were signed by Ed Bolling, Fiscal Officer/Administrator, and Jerry McKinney, Board Member.

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 strictly 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 secondarily 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.

In accordance with the forgoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Mrs. Lott's Food Service, Ed Bolling, Fiscal Officer/Administrator, and Jerry McKinney, Board Member in the amount of $1,875 and in favor of the Legacy Academy for Leaders and the Arts.

Ed Bolling, Fiscal Officer/Administrator and Jerry McKinney, Board Member will be liable only to the extent that payment is not made by Mrs. Lott's Food Service.

**Officials' Response**

The School will obtain reimbursement from Mrs. Lotts' Food Service and present documentation acceptable to the auditor to document the receipt.

**FINDING NUMBER 2004-004**

**Finding for Recovery**

**Ohio Revised Code Section 149.351** states that all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commission.

During the 2003-2004 school year, Legacy Academy for Leaders and the Arts made one payment to Carrie Sammartino, Teacher, for reimbursement for items purchased for "kindergarten graduation". A typed memo stating that the purchases were for "kindergarten graduation" was the only documentation provided.

No additional 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 |
|---|---|---|---|
| 5/24/2004 | 3622 | $101.00 | Kindergarten graduation |

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 could possibly result in expenditures that are not for a proper public purpose.

The check in question was signed by Ed Bolling, Fiscal Officer/Administrator, and Jerry McKinney, Board Member.

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 strictly 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 secondarily 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.

In accordance with the forgoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Carrie Sammartino, Ed Bolling, Fiscal Officer/Administrator, and Jerry McKinney, Board Member in the amount of $101.00 and in favor of the Legacy Academy for Leaders and the Arts.

Ed Bolling, Fiscal Officer/Administrator, and Jerry McKinney, Board Member, will be liable only to the extent that payment is not made by Carrie Sammartino, Teacher.

**Officials' Response**

The School will seek recovery of the funds and will provide documentation acceptable to the auditor for the receipt of those funds.

**FINDING NUMBER 2004-005**

**Finding for Recovery**

**Ohio Revised Code Section 149.351** states that all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commission.

During the 2003-2004 school year, Legacy Academy for Leaders and the Arts made one payment to Cathy Reid-Moncrief, Instructional Aide, for which no additional 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 |
|---|---|---|---|
| 2/5/2004 | 3138 | $2,472.47 | No 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 could possibly result in expenditures that are not for a proper public purpose.

The check in question was signed by Ed Bolling, Fiscal Officer/Administrator, and Jerry McKinney, Board Member.

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 strictly 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 secondarily 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.

In accordance with the forgoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Cathy Reid-Moncrief, Ed Bolling, Fiscal Officer/Administrator, and Jerry McKinney, Board Member, in the amount of $2,472.47 and in favor of the Legacy Academy for Leaders and the Arts.

Ed Bolling, Fiscal Officer/Administrator, and Jerry McKinney, Board Member, will be liable only to the extent that payment is not made by Cathy Reid-Moncrief, Instructional Aide.

**Officials' Response**

The School will seek recovery of the funds and will provide documentation acceptable to the auditor for the receipt of those funds.

**FINDING NUMBER 2004-006**

**Finding for Recovery**

**Ohio Revised Code Section 149.351** states that all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commission.

During the 2003-2004 school year, Legacy Academy for Leaders and the Arts made four payments to Joyce Baldwin, Principal. The only documentation provided were typed memos for two of the payments stating that one was a reimbursement for "refreshments for the CHAMPS training session" and that the other was for "8th grade graduation and final recognition assembly". There were no typed memos for the additional two reimbursements. Additionally, none of the reimbursements had 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:

| DATE | CHECK NUMBER | AMOUNT | PURPOSE |
|---|---|---|---|
| 11/20/2003` | 2870 | $125.00 | Refreshments – CHAMPS training session |
| 5/24/2004 | 3623 | 70.00 | 8th grade graduation and final recognition assembly |
| | | $195.00 | |

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, Fiscal Officer/Administrator, and Jerry McKinney, Board Member.

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 strictly 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 secondarily 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.

In accordance with the forgoing 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, Ed Bolling, Fiscal Officer/Administrator, and Jerry McKinney, Board Member in the amount of $195.00 and in favor of the Legacy Academy for Leaders and the Arts.

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

**Officials' Response**

The School will seek recovery of the funds and will provide documentation acceptable to the auditor for the receipt of those funds.

**FINDING NUMBER 2004-007**

**Finding for Recovery**

**Ohio Revised Code Section 149.351** states that all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commission.

During the 2003-2004 school year, Legacy Academy for Leaders and the Arts made two payments to Karla Hoffman, Teacher. Ms. Hoffman provided typed memos for these purchases stating that both were "PBS expenditures or reimbursements". 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 expenditures 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 |
|---|---|---|---|
| 4/22/2004 | 3489 | $ 55.00 | PBS expense reimbursement |
| 5/28/2004 | 3695 | 325.00 | PBS fund disbursement |
| | | $380.00 | |

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, Fiscal Officer/Administrator, and Jerry McKinney, Board Member.

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 strictly 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 secondarily 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.

In accordance with the forgoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Karla Hoffman, Teacher, Ed Bolling, Administrator, and Jerry McKinney, Board Member in the amount of $380.00 and in favor of the Legacy Academy for Leaders and the Arts.

Ed Bolling, Fiscal Officer/Administrator, and Jerry McKinney, Board Member, will be liable only to the extent that payment is not made by Karla Hoffman, Teacher.

**Officials' Response**

The School will seek recovery of the funds and will provide documentation acceptable to the auditor for the receipt of those funds.

**FINDING NUMBER 2004-008**

**Finding for Recovery**

**Ohio Revised Code Section 149.351** states that all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commission.

During the 2003-2004 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:

| DATE | CHECK NUMBER | PAYEE | AMOUNT |
|---|---|---|---|
| 2/20/2004 | 3225 | Women's Committee for Children's Concerts | 210.00 |
| 3/22/2004 | 3349 | Shirley Young | 49.89 |
| | | **TOTAL** | $259.89 |

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 could possibly result in expenditures that are not for a proper public purpose.

The checks in question were signed by Ed Bolling, Fiscal Officer/Administrator, and Jerry McKinney, Board Member.

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 strictly 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 secondarily 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.

In accordance with the forgoing 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, Fiscal Officer/Administrator, and Jerry McKinney, Board Member in the amount of $259.89 and in favor of the Legacy Academy for Leaders and the Arts.

**Officials' Response**

The School will seek recovery of the funds and will provide documentation acceptable to the auditor for the receipt of those funds.

**FINDING NUMBER 2004-009**

**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 2004 was $108,971 (federal withholdings) and $16,318.44 (Medicare withholdings).

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**

The School has instituted procedures to ensure the prompt filing and payment of taxes.

**FINDING NUMBER 2004-010**

**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 an 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 employees' 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 2004 was $34,489.07.

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**

The School has instituted procedures to ensure the prompt filing and payment of taxes.

**FINDING NUMBER 2004-011**

**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 deduct 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 2004 was $33,575.70.

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**

The School has instituted procedures to ensure the prompt filing and payment of taxes.

**FINDING NUMBER 2004-012**

**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.

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 will adopt the recommendations of the auditor as specified above.

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

**SCHEDULE OF PRIOR AUDIT FINDINGS**
**JUNE 30, 2004**

| **Finding Number** | **Finding Summary** | **Fully Corrected?** | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain*** |
|---|---|---|---|
| 2003-001 | A finding for recovery was made against Mt. Calvary Pentecostal Church for expenses paid by the School which should have been paid by the Church | No | Not Corrected – an additional finding for recovery was issued against Mt. Calvary Pentecostal Church for expenses paid in 2004 by the School on the Church's behalf – see Finding Number 2004-001. |
| 2003-002 | A reportable condition was issued regarding the financial terms of the lease agreement between Mt. Calvary Pentecostal Church and the School. | No | Not Corrected – reissued as a recommendation in the management letter. |
| 2003-003 | A reportable condition was issued regarding the difficulties encountered in trying to perform the audit of the School. | No | Not Corrected – reissued as Finding Number 2004-012. |

Mary Taylor, CPA
Auditor of State

**LEGACY ACADEMY FOR LEADERS & 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, 2009**

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