



**Auditor of State  
Betty Montgomery**



**PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO  
LUCAS COUNTY**

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**Auditor of State  
Betty Montgomery**

## **INDEPENDENT ACCOUNTANTS' REPORT**

Performing Arts School of Metropolitan Toledo  
Lucas County  
630 South Reynolds Road  
Toledo, Ohio 43615-6314

To the School Board:

We have audited the Balance Sheet of the Performing Arts School of Metropolitan Toledo, Lucas County, (the School) as of June 30, 2003, and the related Statement of Revenues, Expenses, and Changes in Accumulated Deficit, and the Statement of Cash Flows for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2003, and the results of operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Performing Arts School of Metropolitan Toledo  
Lucas County  
Independent Accountants' Report  
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In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2004 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

**Betty Montgomery**  
Auditor of State

May 11, 2004

**PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO  
LUCAS COUNTY**

**BALANCE SHEET  
AS OF JUNE 30, 2003**

**Assets**

Current Assets

|   |          |
|---|----------|
| Cash and Cash Equivalents with Fiscal Agent | \$ 7,386 |
| Accounts Receivable                         | 1,345    |
| Intergovernmental Receivable                | 9,822    |
| Prepaid Items                               | 781      |

Total Current Assets 19,334

Non-Current Assets

|  |               |
|--|---------------|
| Fixed Assets (Net of Accumulated Depreciation) | <u>79,610</u> |
|--|---------------|

Total Assets \$ 98,944

**Liabilities and Equity**

Current Liabilities

|                                 |            |
|---------------------------------|------------|
| Accounts Payable                | \$ 252,328 |
| Accrued Wages Payable           | 60,585     |
| Intergovernmental Payable       | 22,272     |
| Due to Students                 | 1,067      |
| Notes Payable - Current Portion | 155,184    |

Total Current Liabilities 491,436

Long-Term Liabilities

|               |               |
|---------------|---------------|
| Notes Payable | <u>10,803</u> |
|---------------|---------------|

Total Liabilities 502,239

**Equity**

Accumulated Deficit (403,295)

Total Liabilities and Equity \$ 98,944

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

**PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO  
LUCAS COUNTY**

STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN ACCUMULATED DEFICIT  
FOR THE YEAR ENDED JUNE 30, 2003

**Operating Revenues**

|                                |                    |
|--------------------------------|--------------------|
| Foundation Payments            | \$ 747,070         |
| Special Education Payments     | 23,698             |
| Disadvantaged Pupil Impact Aid | 2,623              |
| Extracurricular Activities     | 5,339              |
| Classroom Materials and Fees   | 1,975              |
| Other Operating Revenues       | <u>26,202</u>      |
| <br>Total Operating Revenues   | <br><u>806,907</u> |

**Operating Expenses**

|                              |                    |
|------------------------------|--------------------|
| Salaries                     | 458,165            |
| Fringe Benefits              | 86,324             |
| Purchased Services           | 168,188            |
| Materials and Supplies       | 9,026              |
| Depreciation                 | 51,677             |
| Other Operating Expenses     | <u>34,372</u>      |
| <br>Total Operating Expenses | <br><u>807,752</u> |
| <br>Operating Loss           | <br><u>(845)</u>   |

**Non-Operating Revenues (Expenses)**

|  |                                |
|--|--------------------------------|
| Grants - Federal                             | 65,442                         |
| Grants - State                               | 10,501                         |
| Interest Earnings                            | 286                            |
| Contributions and Donations                  | 2,820                          |
| Interest Charges                             | <u>(9,759)</u>                 |
| <br>Total Non-Operating Revenues (Expenses)  | <br><u>69,290</u>              |
| <br>Net Income                               | <br>68,445                     |
| <br>Accumulated Deficit at Beginning of Year | <br><u>(471,740)</u>           |
| <br>Accumulated Deficit at End of Year       | <br><u><u>\$ (403,295)</u></u> |

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



**PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO  
LUCAS COUNTY**

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

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

|  |                        |
|--|------------------------|
| Cash Flows from Operating Activities                       |                        |
| Cash Received from State of Ohio                           | \$ 702,865             |
| Cash Received from Extracurricular Activities              | 5,339                  |
| Cash Received from Other Operating Revenue                 | 27,053                 |
| Cash Received from Classroom Materials and Supplies        | 1,975                  |
| Cash Payments to Suppliers for Goods and Services          | (152,620)              |
| Cash Payments to Employees for Services                    | (493,679)              |
| Cash Payments for Employee Benefits                        | (128,981)              |
| Cash Payments for Other Operating Uses                     | <u>(24,784)</u>        |
| Net Cash Used for Operating Activities                     | <u>(62,832)</u>        |
| Cash Flows from Noncapital Financing Activities            |                        |
| Grants Received - Federal                                  | 69,213                 |
| Grants Received - State                                    | 10,501                 |
| Contributions and Donations                                | <u>4,874</u>           |
| Net Cash Provided by Noncapital Financing Activities       | <u>84,588</u>          |
| Cash Flows from Capital and Related Financing Activities   |                        |
| Principal Payments   | (5,550)                |
| Interest Payments  | (10,180)               |
| Payments for Capital Acquisitions                          | <u>(6,429)</u>         |
| Net Cash Used for Capital and Related Financing Activities | <u>(22,159)</u>        |
| Cash Flows from Investing Activities:                      |                        |
| Interest on Investments                                    | <u>286</u>             |
| Net Cash Provided by Investing Activities                  | <u>286</u>             |
| Net Decrease in Cash and Cash Equivalents                  | (117)                  |
| Cash and Cash Equivalents at the Beginning of the Year     | <u>7,503</u>           |
| Cash and Cash Equivalents at the End of the Year           | <u><u>\$ 7,386</u></u> |

(Continued)

**PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO  
LUCAS COUNTY**

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

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

|  |                           |
|--|---------------------------|
| Operating Loss   | \$ (845)                  |
| Adjustments to Reconcile Operating Loss to<br>Net Cash Used for Operating Activities |                           |
| Depreciation   | 51,677                    |
| Changes in Assets and Liabilities:   |                           |
| (Increase) in Accounts Receivable  | (1,345)                   |
| (Increase) in Intergovernmental Receivable   | (7,362)                   |
| (Increase) in Prepaid Items  | (781)                     |
| Increase in Accounts Payable   | 47,866                    |
| Increase in Due to other Students  | 533                       |
| (Decrease) in Accrued Wages Payable  | (46,724)                  |
| (Decrease) in Intergovernmental Payable  | <u>(105,851)</u>          |
| Total Adjustments  | <u>(61,987)</u>           |
| Net Cash Used for Operating Activities   | <u><u>\$ (62,832)</u></u> |

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

**PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO  
LUCAS COUNTY**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003

**1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY**

The Performing Arts School of Metropolitan Toledo (the School) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the School's tax-exempt status. The School provides services to students in grades 7-12 nine months a year, with an emphasis on fine arts programs, such as theatre, dance, and music. 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) commencing April 20, 1999 and extending until June 30, 2003. The contract was renewed in July 2003 for an additional year. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The sponsorship agreement states the Treasurer of Lucas County Educational Service Center shall serve as the Chief Financial Officer of the School. (See Note 13.)

The School operates under the direction of a five member Governing Board. 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 instructional/support facility staffed by 5 non-certified personnel and 15 certificated full time teaching personnel who provide services to approximately 130 students.

The Governing Board entered into a contractual agreement with Theatric Dance Organization of Metropolitan Toledo (TDOMT) to provide to the school a director of operations. This included an Executive Director and an Artistic/Curriculum Director. Duties including advising, counseling and assisting the School in operation; arranging for, supervising and overseeing other employees; coordinating the preparation and filing of tax exempt applications, tax returns, charitable solicitation registrations, and other government reports; and other reasonable matters relating to the School's purposes. However, this agreement was terminated in September of 2002. (See note 16.)

**PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO  
LUCAS COUNTY**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the School's accounting policies are described below.

**A. Basis of Presentation**

Enterprise Accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

**B. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Equity (i.e., net total assets) consists of accumulated deficit components. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

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

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

**PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO  
LUCAS COUNTY**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)

**C. Budgetary Process**

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the 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 5-year forecast which is to be updated on an annual basis.

**D. Cash and Cash Equivalents**

All monies received by the School are accounted for by the School's fiscal agent, the Lucas County Educational Service Center. All cash received by the fiscal agent is maintained in a separate bank account in the School's name. Monies for the School are maintained in these accounts or temporarily used to purchase short-term investments.

For the purposes of the statement of cash flows and for the presentation on the balance sheet, investments with original maturities of three months or less, at the time they are purchased by the School, are considered to be cash equivalents.

**E. Fixed Assets and Depreciation**

Fixed assets are capitalized at cost and updated for additions and retirements during the fiscal year. Donated fixed assets are recorded at their fair market value as of the dates received. The School maintains a capitalization policy of five hundred dollars. The School does not possess any infrastructure.

Improvements are capitalized. The costs 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, equipment and leasehold improvements is computed using the straight-line method over an estimated useful life of five years. Improvements to fixed assets are depreciated over the remaining useful lives of the related fixed assets or five years.

**F. Intergovernmental Revenues**

The School currently participates in the State Foundation Program, the State Special Education Program and the State Disadvantaged Pupil Impact Aid (DPIA) Program.

**PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO  
LUCAS COUNTY**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)

Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

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

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the 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 the above named programs for the 2003 school year totaled \$849,334.

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expense in the year in which services are consumed.

**H. Estimates**

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**3. ACCOUNTABILITY AND COMPLIANCE**

**Accumulated Deficit**

The School is analyzing operations and admissions procedures to determine appropriate steps to alleviate the deficit, see note 18.

**4. DEPOSITS AND INVESTMENTS**

At June 30, 2003, the carrying amount of the School's deposits was \$7,386 and the bank balance was \$43,151. The bank balance was covered by federal depository insurance.

**PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO  
LUCAS COUNTY**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)

**5. RECEIVABLES**

Receivables at June 30, 2003, consisted of accounts (e.g. miscellaneous receipts), amounts due for student uniforms and fees, and intergovernmental (e.g. grants) receivables. Intergovernmental receivables are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds. The accounts receivable are considered collectible in full.

**6. FIXED ASSETS**

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

|                                |                         |
|--------------------------------|-------------------------|
| Leasehold Improvements         | \$ 121,895              |
| Furniture and Equipment        | <u>136,493</u>          |
| Subtotal                       | 258,388                 |
| Less: Accumulated Depreciation | <u>(178,778)</u>        |
| Net Fixed Assets               | <u><u>\$ 79,610</u></u> |

**7. 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 the year ended June 30, 2003, the School contracted with Cincinnati Insurance Company for property and general liability insurance with a \$1,000,000 single occurrence limit and \$2,000,000 aggregate limit and a \$500 deductible. Settled claims have not exceeded the commercial coverage in the past three years.

Professional liability is protected by the Cincinnati Insurance Company with a \$1,000,000 single occurrence limit and \$1,000,000 aggregate and no deductible. Automobile liability for bodily injury and/or property damage has a \$1,000,000 single occurrence limit. The School also has a \$3,000,000 liability umbrella policy from the Cincinnati Insurance Company.

**PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO  
LUCAS COUNTY**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)

**B. Workers' 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.

**8. 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 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. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 9 percent of their annual covered salary and the School is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion to fund pension obligations. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS Retirement Board. The School's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$7,000, \$3,837, and \$4,704 respectively; 93.97 percent has been contributed for the fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. The unpaid contribution at June 30, 2003, in the amount of \$472, is recorded as a liability.

**B. State Teachers Retirement System**

The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by



**PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO  
LUCAS COUNTY**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)

writing to STRS Ohio, 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 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 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 the 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 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB plan into the Combined plan. This option expired on 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 fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salary. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by State Teachers Retirement Board, upon recommendation 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.

**PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO  
LUCAS COUNTY**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)

The School's required contribution for pension obligations for the fiscal period ended June 30, 2003, 2002, and 2001 were \$53,042, \$32,483, and \$30,781 respectively; 64.64 percent has been contributed for fiscal year 2003 and 100 percent has been contributed for fiscal years 2002 and 2001.

**9. POSTEMPLOYMENT BENEFITS**

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

The State Teachers Retirement Board of Ohio has authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of health care costs in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year June 30, 2003, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$4,078 for the fiscal year ended June 30, 2003.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.011 billion at June 30, 2002 (the latest information available). For fiscal year ended June 30, 2003, net health care costs paid by STRS Ohio were \$354,697,000 and STRS Ohio had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, 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.

For this fiscal year, employer contributions to fund health care benefits were 5.83 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established at \$14,500. For

**PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO  
LUCAS COUNTY**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)

the School, the amount to fund health care benefits, including surcharge, equaled \$5,346 for the fiscal year ended June 30, 2003.

Health Care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2002 (the latest information available) were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, the Retirement System's net assets available for payment of health care benefits were \$335.2 million. The number of benefit recipients currently receiving health care benefits is approximately 50,000.

**10. OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

All employees receive sick and personal leave throughout the school year.

**B. Employee Medical, Dental, and Vision Benefits**

The School has contracted with its sponsor to provide employee medical, dental, and vision insurance to its full time employees who work 20 or more hours per week.

**11. STATE SCHOOL FUNDING DECISION**

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

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

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

**12. CONTINGENCIES**

**A. Grants**

The School received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires

**PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO  
LUCAS COUNTY**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)

compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the School. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2003.

**B. Ohio Community School Program**

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. On April 21, 2003 the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard for oral argument on November 18th, 2003. The effect of this suit, if any, on the Performing Arts School of Metropolitan Toledo is not presently determinable.

**C. State Foundation Funding**

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. As a result of the 2003 review, the School's state foundation will increase by \$7,362 for fiscal year 2004. This amount is recorded as an intergovernmental receivable on the balance sheet.

**D. Real Estate Tax Exemption Status**

The School leased a building from Gomez Enterprises, L.P. and as a part of the lease was required to pay the real estate taxes on the building. The School is claiming the building should get a real estate tax exemption since it is being used as a school. There was an informal recommendation of denial from the Department of Taxation. The School has legal counsel appealing this decision. Legal counsel believes that under applicable law and precedent, the School should be successful in its appeal. As of June 30, 2003 Gomez Enterprises, L.P. is owed over \$50,000 for back real estate taxes. This was not reported as an accounts payable of the School at June 30, 2003.

**PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO  
LUCAS COUNTY**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)

**13. FISCAL AGENT**

The sponsorship agreement states the Treasurer of the Lucas County Educational Service Center shall serve as the Chief Financial Officer of the School. As part of this agreement, the School shall compensate the Lucas County Educational Service Center two percent (2%) of the per pupil allotments paid to the School from the State of Ohio. The amount paid to the fiscal agent for fiscal year 2003 totaled \$13,575 and no amounts were payable at year end.

The Treasurer of the Sponsor shall perform all of the following functions while serving as the Chief Financial Officer of the School.

- Maintain custody of all funds received by the School in segregated accounts separate from the Sponsor or any other Community School's funds.
- Maintain all books and all accounts of the School.
- Maintain all financial records of all state funds of the School and follow State Auditor procedures for receiving and expending funds which procedures shall include that the Treasurer shall disburse money only upon receipt of a voucher signed by the Chief Administrative Officer of the School or that Officer's designee.
- Assist the School in meeting all financial reporting requirements established by the Auditor of Ohio.
- Invest funds of the School in the same manner as the funds of the sponsor are invested, but the Treasurer shall not commingle the funds with any of the sponsor or any other community school.
- Pay obligations incurred by the School within a reasonable amount of time, not more than 14 calendar days after receipt of a properly executed voucher signed by the Chief Administrative Officer of the School so long as the proposed expenditure is within the approved budget and funds are available.

**14. PURCHASED SERVICE EXPENSES**

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

**PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO  
LUCAS COUNTY**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)

|                                     |                          |
|-------------------------------------|--------------------------|
| Professional and Technical Services | \$ 36,228                |
| Property Services                   | 50,433                   |
| Communications                      | 17,655                   |
| Utilities                           | 63,395                   |
| Transportation Services             | 477                      |
| Total Purchased Services            | <u><u>\$ 168,188</u></u> |

**15. DEBT**

Debt outstanding at June 30, 2003 was as follows:

|                             | <u>Principal</u> | <u>Interest Rate</u> |
|-----------------------------|------------------|----------------------|
| Demand Note (Sky Bank)      | \$ 150,000       | Prime + 1%           |
| Installment Note (Sky Bank) | \$ 15,987        | Prime + 1%           |

The demand note is a revolving line of credit issued on January 17, 2001 for an amount up to \$150,000. The terms of the note include monthly interest payments and the balance of the note is payable on demand. Total interest paid in fiscal year 2003 was \$9,027. The note is secured by all business assets of the School.

The installment note was issued on April 19, 2001 for \$25,360. The terms of the note included the repayment of principal and interest at June 30, 2001. The note was modified on June 28, 2001 to include sixty monthly principal and interest payments of \$516 beginning on July 30, 2001. This note is secured by all business assets of the School.

The annual requirement to amortize the installment note outstanding, based on the current interest rate, is as follows as of June 30, 2003:

| <u>Year Ending June 30, 2003</u> | <u>Principle</u>        | <u>Interest</u>        | <u>Total</u>            |
|----------------------------------|-------------------------|------------------------|-------------------------|
| 2004                             | \$ 5,184                | \$ 1,103               | \$ 6,287                |
| 2005                             | 5,558                   | 629                    | 6,187                   |
| 2006                             | 5,245                   | 228                    | 5,473                   |
| Total                            | <u><u>\$ 15,987</u></u> | <u><u>\$ 1,960</u></u> | <u><u>\$ 17,947</u></u> |

**PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO  
LUCAS COUNTY**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)

**16. RELATED PARTY TRANSACTIONS**

During the year ended June 30, 2003, the school renewed a contract for director's services from TDOMT (see note 1), which employs Mr. Fifer as director. TDOMT is owned by Mr. Fifer's aunt. Mr. Fifer is also the secretary of the governing board of the School, and his wife, the Artistic/Curriculum Director, is a board member. Expenses recognized under this agreement were \$16,252. During the month of September, Mr. Fifer was removed as Director, and a new Director was promoted from within the School. Mrs. Fifer also resigned from her position as Artistic/Curriculum Director. Mr. & Mrs. Fifer no longer serve on the board. The services of TDOMT were also terminated at the time of Mr. Fifer's departure.

During the year ended June 30, 2003, the school conducted business with Point Place Tees & More for the purchase of school uniforms. Point Place Tees & More is owned by the School board president, Jane Murray. Ms. Murray has served on the board since the 2002 school year. Expenses recognized during the audit period were \$4,020.

**17. OPERATING LEASES**

The School entered into an operating lease agreement for the School's facility. This agreement is, in substance, a rental agreement (operating lease), and is classified as operating lease rental payments in the financial statements. The School has renewed the facility lease for an additional five-year term beginning August 1, 2002, and has the option to renew for an additional five-year term with the total rental payment to increase to \$360,000.

The School paid \$32,000 in operating lease payments for the fiscal year. The following is a schedule of the future minimum payments required under the operating lease as of June 30, 2003:

| <u>Year Ending June 30,</u>  | <u>Facility Lease</u> |
|------------------------------|-----------------------|
| 2004                         | \$ 66,000             |
| 2005                         | 66,000                |
| 2006                         | 66,000                |
| 2007                         | 66,000                |
| 2008                         | 5,500                 |
| Total minimum lease payments | <u>\$ 269,500</u>     |

In addition, the School is delinquent in the amount of \$78,500 in payment of the lease. This is recorded as an accounts payable on the Schools books.

**PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO  
LUCAS COUNTY**

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2003

(Continued)

**18. MANAGEMENT'S PLANS REGARDING ACCUMULATED DEFICIT  
(SEE NOTE 3)**

The School accumulated a deficit of \$403,295, has an operating loss of \$845 and has a working capital deficiency of \$461,734 for the year ended June 30, 2003, and is also delinquent in various payments to vendors. Although no formal written plan has been put into place, management anticipates adhering to a budget to help reduce debt.

As of March 31, 2004, the unaudited reconciled cash balance is \$22, 481.

The School is current on payroll and payroll related withholdings through March 31, 2004.

The Sponsor has not informed the School of an intent to not renew the sponsorship agreement.

The School is in negotiations with their landlord concerning the facilities lease to consider \$50,000 of the delinquent facilities payments as a contribution to the school.

As of March 31, 2004, the unaudited accounts payable balance is \$183,809.





**Auditor of State  
Betty Montgomery**

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

Performing Arts School of Metropolitan Toledo  
Lucas County  
630 South Reynolds Road  
Toledo, Ohio 43615-6314

To the School Board:

We have audited the financial statements of the Performing Arts School of Metropolitan Toledo, Lucas County, Ohio, as of and for the year ended June 30, 2003, and have issued our report thereon dated May 11, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Schools 's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the School in a separate letter dated May 11, 2004.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial

Performing Arts School of Metropolitan Toledo  
Lucas County  
Independent Accountants' Report on Compliance and on Internal  
Control Required by *Government Auditing Standards*  
Page 2

reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over the financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings as items 2003-001 and 2003-002.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition 2003-001 described above to be a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School in a separate letter dated May 11, 2004.

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



**Betty Montgomery**  
Auditor of State

May 11, 2004

**PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO  
LUCAS COUNTY**

SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2003

|  |
|--|
| <b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS<br/>REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b> |
|--|

**FINDING NUMBER 2003-001**

**Material Weakness – Fixed Asset Controls**

The following control weaknesses over fixed assets exist:

- The School has developed an inventory system which maintains asset listings by location, description, and model numbers. However, the School has not adequately developed and implemented procedures to assist in recording fixed asset additions and deletions throughout the year. The listing is also lacking monetary assignments to the various assets and a tagging system.

Failure to employ adequate controls over the acquisition, disposal, and recording of fixed assets could result in misappropriation of assets and misstatements of recorded assets.

To maintain safeguards over fixed assets and to reduce the risk that the School's assets will be misstated, we recommend:

- The Board develop and implement more rigorous procedures to be performed throughout the year for the recording and updating of fixed assets. These procedures should include tagging all assets meeting the School's capitalization criteria, and addition and deletion forms completed by the School and approved by management at the time the asset is acquired or disposed. This information, in addition to asset descriptions, location, cost and other supporting documentation, should be entered into a master fixed asset accounting system. At the end of each fiscal year an inventory should be taken and compared to the master fixed asset list and any differences reconciled.

**FINDING NUMBER 2003-002**

**Reportable Condition - Developing and Implementing an Effective Monitoring Control System**

Monitoring controls comprise regular management and supervisory activities established to oversee whether management's objectives are being achieved, covering operational and legal compliance, as well as financial control objectives. Effective monitoring controls should identify unexpected results or exceptions (including significant compliance exceptions), investigate underlying causes, and take corrective action.

**FINDING NUMBER 2003-002**  
**(Continued)**

Monitoring controls may be in the nature of ongoing activities or periodic separate evaluation by either management or an internal audit function. They can relate to a specific transaction cycle or can be in a more overview nature.

Monitoring controls should assist management in making informed decisions on operational and fiscal matters for the School, which can include:

- Regular review of financial report summaries of sufficient detail (monthly detailed revenue and expenditure reports), as submitted by the Chief Financial Officer.
- Review of key performance indicators.
- Review of revenues/expenditures with independently accumulated information (budgets, past performance, etc.), as submitted by the Chief Financial Officer.
- Monthly review and approval of the School's expenditures, as disbursed by the Chief Financial Officer.

We recommend the School develop and implement a monitoring control system to help ensure that material misstatements do not occur.

**PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO  
LUCAS COUNTY**

SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2003

| Finding Number | Finding Summary  | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i> : |
|----------------|--|------------------|---|
| 2002-10148-001 | School issued debt with maturity date later than the end of fiscal year in which money was borrowed. | N/A              | Finding no longer valid.  |
| 2002-10148-002 | Inadequate controls over fixed assets  | No               | Partially corrected, reissued as finding number 2003-001.   |
| 2002-10148-003 | No management oversight or segregation of duties   | Yes              |   |
| 2002-10148-004 | Inadequate documentation and missing signatures  | No               | Partially corrected, reissued as a management letter recommendation.  |





**Auditor of State  
Betty Montgomery**

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Columbus, Ohio 43216-1140  
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800-282-0370  
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**PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO**

**LUCAS COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JUNE 8, 2004**