



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO
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REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Governing Board:

We have audited the Balance Sheet of the Performing Arts School of Metropolitan Toledo (the School) as of June 30, 2001, and the related Statement of Revenues, Expenses, and Changes in Accumulated Deficit, and the Statement of Cash Flows for the year ended June 30, 2001. 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, 2001, 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.

The accompanying financial statements have been prepared assuming the School will continue as a going concern. As shown in the financial statements, the School has incurred an operating loss in the amount of \$352,313 for the year ended June 30, 2001, has a working capital deficiency of \$468,906 and an accumulated deficit of \$370,452 as of June 30, 2001. Accordingly, there is substantial doubt about its ability to continue as a going concern. Management's plans in regards to these matters are discussed in Note 18. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2002 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.

Jim Petro
Auditor of State

March 12, 2002

**PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO
BALANCE SHEET
AS OF JUNE 30, 2001**

Assets

Current Assets

| | |
|---|------------|
| Cash and Cash Equivalents with Fiscal Agent | \$26,638 |
| Receivables: | |
| Accounts Receivable | 3,979 |
| Intergovernmental Receivable | 8,733 |
| Prepaid Items | <u>181</u> |
| Total Current Assets | 39,531 |

Non-Current Assets

| | |
|--|-------------------------|
| Fixed Assets (Net of Accumulated Depreciation) | <u>119,528</u> |
| Total Assets | <u><u>\$159,059</u></u> |

Liabilities and Fund Equity

Current Liabilities

| | |
|------------------------------------|----------------|
| Accounts Payable | \$252,219 |
| Accrued Wages and Benefits Payable | 82,945 |
| Intergovernmental Payable | 17,618 |
| Due to Students | 534 |
| Accrued Interest Payable | 835 |
| Notes Payable - Current Portion | <u>154,286</u> |
| Total Current Liabilities | 508,437 |

Long-Term Liabilities

| | |
|-------------------|---------------|
| Notes Payable | <u>21,074</u> |
| Total Liabilities | 529,511 |

Fund Equity

| | |
|-----------------------------------|-------------------------|
| Accumulated Deficit | <u>(370,452)</u> |
| Total Liabilities and Fund Equity | <u><u>\$159,059</u></u> |

The notes to the financial statements are an integral part of this statement.

**PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN ACCUMULATED DEFICIT
FOR THE YEAR ENDED JUNE 30, 2001**

Operating Revenues

| | |
|--------------------------------|--------------------|
| Foundation Payments | \$584,921 |
| Disadvantaged Pupil Impact Aid | 20,206 |
| Food Services | 14,120 |
| Extracurricular Activities | 7,664 |
| Classroom Materials and Fees | 17,542 |
| Other Operating Revenues | <u>19,011</u> |
| Total Operating Revenues | <u>663,464</u> |

Operating Expenses

| | |
|------------------------------|----------------------|
| Salaries | 459,321 |
| Fringe Benefits | 112,407 |
| Purchased Services | 273,204 |
| Materials and Supplies | 106,535 |
| Depreciation | 39,248 |
| Other Operating Expenses | <u>25,062</u> |
| Total Operating Expenses | <u>1,015,777</u> |
| Operating Loss | <u>(352,313)</u> |

Non-Operating Revenues and (Expenses)

| | |
|---|-------------------------------|
| Grants - State | 34,357 |
| Grants - Federal | 31,866 |
| Contributions and Donations | 1,460 |
| Interest Earnings | 911 |
| Interest Expense and Fiscal Charges | (10,831) |
| Miscellaneous Non-Operating Revenue | <u>5,545</u> |
| Total Non-Operating Revenues and (Expenses) | <u>63,308</u> |
| Net Loss | (289,005) |
| Accumulated Deficit at Beginning of Year | <u>(81,447)</u> |
| Accumulated Deficit at End of Year | <u><u>(\$370,452)</u></u> |

The notes to the financial statements are an integral part of this statement.

**PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2001**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

| | |
|---|------------------|
| Cash Received from State of Ohio | \$606,882 |
| Cash Received from Food Services | 14,120 |
| Cash Received from Other Operating Revenue | 42,580 |
| Cash Payments to Suppliers for Goods and Services | (280,609) |
| Cash Payments to Employees for Services | (424,687) |
| Cash Payments to Employee Benefits | (104,948) |
| Cash Payments for Other Operating Uses | <u>(12,823)</u> |
| Net Cash Used for Operating Activities | <u>(159,485)</u> |

Cash Flows from Noncapital Financing Activities

| | |
|--|---------------|
| Grants Received - State | 34,357 |
| Grants Received - Federal | 41,113 |
| Contribution and Donations | 1,460 |
| Miscellaneous Non-Operating Revenues | <u>5,545</u> |
| Net Cash Provided by Noncapital Financing Activities | <u>82,475</u> |

Cash Flows from Capital and Related Financing Activities

| | |
|---|----------------|
| Proceeds from Sale of Notes | 123,320 |
| Principal Payments | (20,000) |
| Interest Payments | (8,638) |
| Payments for Capital Acquisitions | <u>(8,938)</u> |
| Net Cash Provided by Capital and Related Financing Activities | <u>85,744</u> |

Cash Flows from Investing Activities

| | |
|--|------------------------|
| Interest on Investments | <u>911</u> |
| Net Cash Provided by Investing Activities | <u>911</u> |
| Net Increase in Cash and Cash Equivalents | 9,645 |
| Cash and Cash Equivalents at the Beginning of the Period | <u>16,993</u> |
| Cash and Cash Equivalents at the End of the Year | <u><u>\$26,638</u></u> |

(Continued)

**PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

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

Operating Loss (\$352,313)

**Adjustments to Reconcile Operating Loss to
Net Cash Provided by Operating Activities:**

| | |
|--|---------------------------|
| Depreciation | 39,248 |
| Changes in Assets and Liabilities: | |
| (Increase) in Accounts Receivable | (2,101) |
| Decrease in Prepaid Items | 279 |
| Increase in Accounts Payable | 111,110 |
| Increase in Accrued Wages Payable | 34,634 |
| Increase in Due to Students | 464 |
| Increase in Intergovernmental Payable | <u>9,194</u> |
| Total Adjustments | <u>192,828</u> |
| Net Cash Used for Operating Activities | <u><u>(\$159,485)</u></u> |

The notes to the financial statements are an integral part of this statement.

PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

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's objective is to provide academic and artistic growth in a disciplined and nurturing environment to students grade 7 - 12 who are motivated, able students with an interest in the performing arts and whose families value a fine arts education. 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 four years commencing April 20, 1999. 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 one instructional/support facility staffed by 5 non-certified personnel, 14 certificated full time teaching personnel who provide services to 122 students.

The Governing Board has 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 exemption applications, tax returns, charitable solicitation registrations, and other government reports; and other reasonable matters relating to the School's purposes. (See note 16.)

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.

PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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) is segregated into contributed capital and 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.

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 separate bank accounts 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 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.

PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fixed Assets and Depreciation

Fixed assets are capitalized at cost and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value as of the dates received. The 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 and equipment 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 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 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 2001 school year totaled \$66,223.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2001, 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.

3. ACCOUNTABILITY AND COMPLIANCE

Accumulated Deficit and Operating Losses

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

4. DEPOSITS AND INVESTMENTS

At June 30, 2001, the carrying amount of the School's deposits was \$26,638 and the bank balance was \$35,728. The bank balance was covered by federal depository insurance.

PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)

5. RECEIVABLES

Receivables at June 30, 2001, consisted of amounts due for student uniforms and fees and intergovernmental receivables. Accounts receivables are considered collectible in full. All intergovernmental receivables are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

6. FIXED ASSETS

A summary of the School's fixed assets at June 30, 2001, follows:

| | Balance 6/30/01 |
|--------------------------------|----------------------------|
| Furniture and Equipment | \$79,341 |
| Leasehold Improvements | 116,895 |
| Subtotal: | \$196,236 |
| Less: accumulated depreciation | (76,708) |
| Net Fixed Assets | \$119,528 |

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 July 1, 2000 through June 30, 2001, the School contracted with the Cincinnati Insurance Company for property and general liability insurance, with a \$1,000,000 single occurrence limit and \$2,000,000 aggregate.

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 entire umbrella liability package has a single occurrence and aggregate limit of \$5,000,000.

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.

PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)

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 administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

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; 4.2 percent was the portion used to fund pension obligations for fiscal year 2001. For fiscal year 2000, 5.5 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2001 and 2000 was \$4,704 and \$4,195, respectively; 75.00 percent has been contributed for fiscal year 2001 and 100 percent for fiscal year 2000. The unpaid contribution for fiscal year 2001, in the amount of \$5,089 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 administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and the School is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations for fiscal year 2001. For fiscal year 2000, 6 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School's required contribution for pension obligations to STRS for the years ended June 30, 2001 and 2000 was \$30,781 and \$16,377, respectively; 85.92 percent has been contributed for fiscal year 2001 and 100 percent for fiscal year 2000. The unpaid contribution for fiscal year 2001, in the amount of \$6,478 has been recorded as a liability.

PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)

9. 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 classified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligation to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2001, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$14,581 during the fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3,419 million at June 30, 2000 (the latest information available). For the fiscal year ended June 30, 2000, net health care costs paid by STRS were \$283,137,000, and STRS had 99,011 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 the fiscal year ended June 30, 2001, employer contributions to fund health care benefits were 9.8 percent of covered payroll, an increase from 1.3 percent for fiscal year 2000. 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 2001, the minimum pay has been established at \$12,400. For the School, the amount to fund health care benefits, including the surcharge, was \$14,415 during the 2001 fiscal year.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for fiscal year ended June 30, 2000 (the latest information available), were \$140,696,340, and the target level was \$211 million. At June 30, 2000, SERS had net assets available for payment of health care benefits of \$252.3 million. SERS has approximately 50,000 participants currently receiving health care benefits.

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.

PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)

11. STATE SCHOOL FUNDING DECISION

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of March 12, 2002, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such reconsideration.

As of the date of these financial statements, the School District is unable to determine what effect, if any, this decision and the reconsideration 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 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 funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2001.

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. The effect of this suit, if any, on the School is not presently determinable.

PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)

12. CONTINGENCIES (continued)

C. State Funding

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The results of this review resulted in state funding being adjusted. The School foundation payments were reduced by \$1,755, as a result of such a review.

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 Fiscal Agent for fiscal year 2001 totaled \$16,660, 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:

1. Maintain custody of all funds received by the school in segregated accounts separate from the Sponsor's or any other Community School's funds;
2. Maintain all books and accounts of the school;
3. 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;
4. Assist the school in meeting all financial reporting requirements established by the Auditor of Ohio;
5. 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.
and
6. 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 proposed expenditure is within approved budget and funds are available.

14. PURCHASED SERVICE EXPENSES

For the year ended June 30, 2001, purchased service expenses were payments for services rendered by various vendors, as follows:

PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)

14. PURCHASED SERVICE EXPENSES (continued)

PURCHASED SERVICES

| | |
|--|-------------------------|
| Director's Fees (TDOMT) | \$85,987 |
| Utilities | 54,680 |
| Property Services | 89,265 |
| Professional & Technical Services | 3,601 |
| Lucas County Educational Service Center (See Note 13.) | 16,660 |
| Communications | 13,145 |
| Contracted Craft | 7,493 |
| Meeting Expenses | 973 |
| Other Purchased Services | <u>1,400</u> |
| Total Purchased Services | <u><u>\$273,204</u></u> |

15. DEBT

Debt outstanding at June 30, 2001 was as follows:

| | Principal | Interest Rate |
|-----------------------------|--------------------------|------------------|
| Demand Note (Sky Bank) | \$150,000 | Prime + 1% |
| Installment Note (Sky Bank) | <u>\$25,360</u> | Prime + 1% |
| Total | <u><u>\$ 175,360</u></u> | |

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 2001 was \$10,416. This note is secured by all business assets of the School.

A demand note was issued on April 19, 2001 in the amount of \$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 \$515.62 beginning on July 30, 2001. This note is secured by all business assets of the School. Interest of \$415 was due at the time of modification and is shown in Interest Payable. The payment amount is based on the interest rate at the time of the modification.

Notes are statutorily limited to maturing at the end of the year the note was issued if the debt obligates or is collateralized by the State monies received by the School under Ohio Law. The note above issued during the year does not specifically exclude State foundation monies and extended beyond year end, contrary to State statutes.

PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)

15. DEBT (continued)

The annual requirements to amortize the installment note outstanding, based on the current interest rate, are as follows at June 30, 2001.

| <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------------|------------------|-----------------|------------------|
| 2002 | \$ 4,286 | \$ 1,901 | \$ 6,187 |
| 2003 | 4,647 | 1,540 | 6,187 |
| 2004 | 5,039 | 1,148 | 6,187 |
| 2005 | 5,464 | 723 | 6,187 |
| 2006 | 5,924 | 263 | 6,187 |
| Total | <u>\$ 25,360</u> | <u>\$ 5,575</u> | <u>\$ 30,935</u> |

16. RELATED PARTY TRANSACTIONS

During the year ended June 30, 2001, the School renewed a one-year 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 \$85,987. Mr. Fifer was also reimbursed the amount of \$2,300 for supplies and travel expenses. At June 30, 2001, \$21,200 was due to Mr. Fifer for reimbursement that was booked as an Accounts Payable.

17. OPERATING LEASES - LESSEE DISCLOSURE

- A.** The School has entered into an operating lease for the period August 1, 1999 through July 31, 2002 with "Gomez Enterprises, L.P." to lease a school facility. Payments made totaled \$60,000 for the year.

The following is a schedule of the future minimum payments required under the operating lease as of June 30, 2001.

| <u>Year Ending June 30,</u> | |
|------------------------------|-----------------|
| 2002 | 60,000 |
| 2003 | <u>5,000</u> |
| Total minimum lease payments | <u>\$65,000</u> |

The School has the option to renew the lease at an inflation-adjusted rate for two additional five-year terms.

- B.** The School has entered into an operating lease for the period May 26, 2000 through May 26, 2005 with "Ohio Business Machines, Inc." to lease a Sharp 405 Copier. Payments made totaled \$3,617 for the year.

PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)

17. OPERATING LEASES - LESSEE DISCLOSURE (continued)

The following is a schedule of the future minimum payments required under the operating lease as of June 30, 2001.

| Year Ending June 30, | |
|------------------------------|------------------------|
| 2002 | 3,617 |
| 2003 | 3,617 |
| 2004 | 3,617 |
| 2005 | 3,316 |
| Total minimum lease payments | <u><u>\$14,167</u></u> |

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

The School accumulated a deficit of \$370,452 and operating loss of \$352,313 for the year ended June 30, 2001, and is also delinquent in some payments to vendors. Management plans to eliminate the deficit with the following actions:

- A) The School has been applying for various grants and will continue applying for grants throughout the year. The School received a \$150,000 sub-grant in September 2001 and March 2002 from the Ohio Department of Education.
- B) Management expects to maintain the same number of students for fiscal year 2002 as they had in fiscal year 2001. Management expects that student enrollment will increase by about 40 students for fiscal year 2003, which would increase monthly cash flow by approximately \$17,000.

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**REPORT OF INDEPENDENT ACCOUNTANTS 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 Governing Board:

We have audited the financial statements of the Performing Arts School of Metropolitan Toledo (the School) for the year ended June 30, 2001, and have issued our report thereon dated March 12, 2002. Our report expressed substantial doubt as to the ability of the School to continue as a going concern. 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 School'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 instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2001-10148-001 and 2001-10148-002.

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 reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2001-10148-003.

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School in a separate letter dated March 12, 2002.

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

Jim Petro
Auditor of State

March 12, 2002

**PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2001**

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

FINDING NUMBER 2001-10148-001

Noncompliance Citation

Community Schools may issue debt, however, if the debt obligates or is secured by the State monies received by the community school under Ohio Revised Code § 3314.08(D), then the debt must be issued in accordance with Ohio Revised Code § 3314.08(J) which states, in part, that “the school may issue notes to evidence such borrowing to mature no later than the end of the fiscal year in which such money was borrowed.”

During the fiscal year ended June 30, 2001, the School issued a \$150,000 note to be used for general operating expenses, with no specified maturity date. The School also modified a note from the prior fiscal year, which was used for general operating expenses, into a installment note, with a maturity date of June 30, 2006. The notes in question are general in nature. Because the notes do not specifically exclude the School’s Ohio Revised Code § 3314.08(D) funds from the general collateral provisions, these notes obligate these monies. Therefore, Ohio Revised Code § 3314.08(J) would apply.

We recommend that Performing Arts School of Metropolitan Toledo officials take steps to monitor debt and determine there is no outstanding debt subject to Ohio Revised Code § 3314.08(J) at fiscal year end.

FINDING NUMBER 2001-10148-002

Noncompliance Citation

Ohio Revised Code § 3309.23 (A)(1) states that all employees as defined in division (B) of Section 3309.01 of the Revised Code shall be contributors of the School Employees Retirement System (SERS). Ohio Revised Code Section 3309.01 (B)(2) defines an employee as “any person who performs a service common to the normal daily operation of an educational unit even though the person is employed and paid by one who has contracted with an employer to perform the service”. This section further states that “the contracting board or educational unit shall be the employer for the purposes of administering the provisions of this chapter.”

During fiscal year 2000, the Performing Arts School of Metropolitan Toledo (PASMT) entered into a contract with the Theatric Dance Organization of Metropolitan Toledo (TDOMT) for the employment of TDOMT as director of operations. TDOMT subsequently appointed Kevin and Mary Fifer to perform these duties. The school has made no contributions to SERS on behalf of these individuals for fiscal year 2000 and 2001.

We recommend the PASMT officials contact the School Employees Retirement System to pay any employee and employer contributions that may be due.

FINDING NUMBER 2001-10148-003

Material Weakness - Fixed Assets Controls

The following control weaknesses over fixed assets exist:

- The School has not developed a fixed asset accounting system which maintains total fixed asset listings, by location, with tag identification numbers and other supplemental information. The School has not accurately developed and implemented procedures to assist in recording assets as additions when purchased, and deletions when disposed of throughout the year.
- The School has not implemented procedures to perform periodic inventory of assets.
- The Governing Board has not developed a fixed asset policy wherein it sets forth the capitalization criteria for the School.

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

- The Governing Board develop and implement 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. Further, addition and disposal forms should be completed by the School and approved by management when assets are acquired or disposed. This information should then be entered on the fixed asset accounting system, recording such information as the tag number, a description of the item, the cost, the acquisition date, location and any other supporting documentation creating a master fixed asset listing.
- The School develop and implement procedures for performing periodic (annual) physical inventories. The physical inventories can be performed by submitting a list of all fixed assets recorded to each location and having individuals responsible for that location perform the inventory of all assets in that location. The assets in each location should be compared to the listing provided, and any assets no longer used should be deleted and any assets not included on the listing should be added. This master listing of all assets can be then reconciled to the balance sheet and note disclosure amounts.

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

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2001**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i> |
|----------------|--|------------------|---|
| 2000-10148-001 | School issued debt with maturity date later than the end of fiscal year in which money was borrowed. | No | Not Corrected, reissued as Finding Number 2001-10148-001. |
| 2000-10148-002 | School made no contributions to SERS on behalf of the two Directors. | No | Not Corrected, reissued as Finding Number 2001-10148-002. |
| 2000-10148-003 | No fixed asset policy or procedures | No | Not Corrected, reissued as Finding Number 2001-10148-003. |



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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
APRIL 9, 2002**