



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

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2000**



**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 Performing Arts School of Metropolitan Toledo, Lucas County, (the School) as of June 30, 2000, and the related Statement of Revenues, Expenses, and Changes in Accumulated Deficit, and the Statement of Cash Flows for the year ended June 30, 2000. 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 generally accepted auditing standards 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, 2000, and the results of operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

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 \$214,045 for the year ended June 30, 2000, has a working capital deficiency of \$231,285 as of June 30, 2000 and accumulated a deficit retained earnings of \$81,447. 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 28, 2001 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 28, 2001

**PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO  
BALANCE SHEET  
AS OF JUNE 30, 2000**

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**Assets**

Current Assets

Cash and Cash Equivalents with Fiscal Agent	\$16,993
Receivables:	
Accounts Receivable	1,878
Intergovernmental Receivable	17,980
Prepaid Items	<u>460</u>
Total Current Assets	37,311

Non-Current Assets

Fixed Assets (Net of Accumulated Depreciation)	<u>149,838</u>
Total Assets	<u><u>\$187,149</u></u>

**Liabilities and Fund Equity**

Liabilities

Accounts Payable	\$141,109
Accrued Wages and Benefits Payable	48,311
Intergovernmental Payable	8,424
Due to Students	70
Accrued Interest Payable	682
Notes Payable	<u>70,000</u>
Total Liabilities	268,596

Fund Equity

Accumulated Deficit	<u>(81,447)</u>
Total Liabilities and Fund Equity	<u><u>\$187,149</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, 2000**

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**Operating Revenues**

Foundation Payments	\$583,546
Disadvantaged Pupil Impact Aid	8,106
Food Services	11,224
Extracurricular Activities	3,024
Classroom Materials and Fees	19,507
Other Operating Revenues	<u>6,365</u>
 Total Operating Revenues	 <u>631,772</u>

**Operating Expenses**

Salaries	352,875
Fringe Benefits	77,683
Purchased Services	209,446
Materials and Supplies	160,915
Depreciation	37,460
Other Operating Expenses	<u>7,438</u>
 Total Operating Expenses	 <u>845,817</u>
 Operating Loss	 <u>(214,045)</u>

**Non-Operating Revenues and (Expenses)**

Operating Grants - State	106,135
Operating Grants - Federal	24,445
Interest Earnings	1,182
Interest and Fiscal Charges	(1,469)
Miscellaneous Non-Operating Revenue	<u>2,305</u>
 Total Non-Operating Revenues and (Expenses)	 <u>132,598</u>
 Net Loss	 (81,447)
 Retained Earnings at Beginning of Year	 <u>0</u>
 Accumulated Deficit at End of Year	 <u><u>(\$81,447)</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, 2000**

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

**Cash Flows from Operating Activities**

Cash Received from State of Ohio	\$591,652
Cash Received from Food Services	\$11,224
Cash Received from Extracurricular Activities	\$2,554
Cash Received from Classroom Materials and Fees	\$18,352
Cash Received from Other Operating Revenue	6,182
Cash Payments to Suppliers for Goods and Services	(237,150)
Cash Payments to Employees for Services	(304,564)
Cash Payments to Employee Benefits	(69,259)
	<hr/>
Net Cash Provided by Operating Activities	18,991
	<hr/>

**Cash Flows from Noncapital Financing Activities**

Operating Grants Received - State	106,135
Operating Grants Received - Federal	6,465
Miscellaneous Non-Operating Revenues	2,305
	<hr/>
Net Cash Provided by Noncapital Financing Activities	114,905
	<hr/>

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

Proceeds from Sale of Notes	70,000
Payments for Capital Acquisitions	(187,298)
Interest Payments	(787)
	<hr/>
Net Cash Used by Capital and Related Financing Activities	(118,085)
	<hr/>

**Cash Flows from Investing Activities**

Interest on Investments	1,182
	<hr/>
Net Cash Provided by Investing Activities	1,182
	<hr/>
Net Increase in Cash and Cash Equivalents	16,993
Cash and Cash Equivalents at the Beginning of the Period	0
	<hr/>
Cash and Cash Equivalents at the End of the Period	<u>\$16,993</u>

(Continued)

**PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2000  
(Continued)**

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

Operating Loss (\$214,045)

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

Depreciation	37,460
Changes in Assets and Liabilities:	
Increase in Accounts Receivable	(1,878)
Increase in Prepaid Items	(460)
Increase in Accounts Payable	141,109
Increase in Accrued Wages Payable	48,311
Increase in Due to Students	70
Increase in Intergovernmental Payable	<u>8,424</u>
Total Adjustments	<u>233,036</u>
Net Cash Provided by Operating Activities	<u><u>\$18,991</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, 2000**

**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, 10 certificated full time teaching personnel and 6 certificated part time teaching personnel who provide services to 88 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.

**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, 2000**  
**(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, 2000**  
**(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, the State Disadvantaged Pupil Impact Aid (DPIA) Program, and the State Special Education Program. Revenues from these programs are recognized as operating revenues in the accounting period in which they are earned and become measurable.

The School also participates in the Charter School Grant Program through the Ohio Department of Education. Under this program, the Sponsor, as part of the Lucas County pilot project, awarded the School \$100,000 to partially defray school start-up costs. Revenue from this program are recognized as non-operating revenue on the accompanying financial statements.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which they are earned and become measurable.

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2000, 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, 2000, the carrying amount of the School's deposits was \$16,993 and the bank balance was \$32,085. The bank balance was covered by federal depository insurance.

**PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2000**  
**(Continued)**

**5. RECEIVABLES**

Receivables at June 30, 2000, consisted of accounts (e.g., student dues for 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, 2000, follows:

Leasehold Improvements	\$116,895
Furniture and Equipment	70,403
Less: Accumulated Depreciation	<u>(37,460)</u>
Net Fixed Assets	<u><u>\$149,838</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 July 1, 1999 through June 30, 2000, 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.

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

The School has contracted through the 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, 2000**  
**(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 established 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; for the year June 30, 2000, 5.5 percent was the portion 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 year ended June 30, 2000 was \$4,195; 96 percent has been contributed for the year ended June 30, 2000. The unpaid contribution at June 30, 2000, in the amount of \$415, 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; 6 percent was the portion used to fund pension obligations for year 2000. 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 year ended June 30, 2000 was \$16,377, 85 percent has been contributed for the year ended June 30, 2000. The unpaid contribution at June 30, 2000, in the amount of \$5,836, is recorded as a liability.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security System. As of June 30, 2000, the School has no employees or members of the governing board who contribute to the Social Security System.

**PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2000**  
**(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 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.

For STRS, all benefit recipients are required to pay a portion of health care costs in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The Governing Board currently allocates employer contributions equal to eight percent of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. For the School, this amount equaled \$21,836 during the year.

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 period, employer contributions to fund health care benefits were 8.5 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 the year ended June 30, 2000, the minimum pay has been established at \$12,400. For the School, the amount to fund health care benefits, including surcharge, equaled \$6,483 during the year.

**10. OTHER EMPLOYEE BENEFITS**

**Employee Medical, Dental and Vision Benefits**

The School has contracted through the Sponsor to provide employee medical, dental, and vision insurance to its full time employees who work 20 or more hours per week. The School pays the full amount of the monthly premiums for all selected coverage (medical, dental and/or vision).

**11. STATE SCHOOL FUNDING DECISION**

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to the School. During the year ended June 30, 2000, the School received \$583,546 of school foundation support.



**PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2000**  
**(Continued)**

**11. STATE SCHOOL FUNDING DECISION (continued)**

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State General Assembly in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. On May 11, 2000, the Ohio Supreme Court rendered an opinion on this issue. The Court concluded, "...the mandate of the [Ohio] Constitution has not been fulfilled." The Court's majority recognized efforts by the Ohio General Assembly taken in response to the Court's March 24, 1997 decision, however, it found seven "...major areas warrant further attention, study, and development by the General Assembly..." including the State's reliance on local property tax funding, the State's basic aid formula, the school foundation program, as discussed above, the mechanism for, and adequacy of, funding for school facilities, and the existence of the State's School Solvency Assistance Fund, which the Court found took the place of the unconstitutional emergency school loan assistance program.

The Court decided to maintain jurisdiction over these issues and continued the case at least until June 15, 2001.

As of the date of these financial statements, the School is unable to determine what effect, if any, this ongoing litigation will have on its future State funding under this program and on its financial operations.

**12. CONTINGENCIES**

**Grants**

The School received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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 School at June 30, 2000.

**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 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;

**PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2000**  
**(Continued)**

**13. FISCAL AGENT (continued)**

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, 2000, purchased service expenses were payments for services rendered by various vendors, as follows:

***PURCHASED SERVICES***

Director's Fees (TDOMT)	\$81,833
Utilities	42,671
Property Services	33,763
Professional & Technical Services	26,088
Lucas County Educational Service Center (See Note	14,285
Communications	8,494
Contracted Craft	1,579
Pupil Transportation	693
Travel Mileage/Meeting Expenses	40
Total Purchased Services	\$209,446

**PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2000**  
**(Continued)**

**15. DEBT**

Debt outstanding at June 30, 2000 was as follows:

	Principal	Interest Rate
General Note (Mid Am Bank)	\$70,000	8.50%

The above note is a line of credit issued on March 30, 2000 for an amount up to \$75,000. The terms of the note include monthly interest payments and the balance of the note payable on August 30, 2000. Total interest paid in the year ended June 30, 2000 was \$1,469. Interest payments outstanding for the note will be approximately \$1,008 during the 2001 year.

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 is general in nature and does not specifically exclude State foundation monies and extended beyond year end, contrary to State statutes.

**16. RELATED PARTY TRANSACTIONS**

During the year ended June 30, 2000, the School entered into a one-year contract for director's services from TDOMT (see Note 1) which is directed by the School's Governing Authority, Mr. Fifer, and owned by Mr. Fifer's aunt. While performing the services as Governing Authority, 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 \$81,833. Mr. Fifer was also reimbursed the amount of \$11,485 for supplies and travel expenses. At June 30, 2000, \$1,797 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 \$30,000 for the year.

The following is a schedule of the future minimum payments required under the operating lease as of June 30, 2000.

Year Ending June 30,	
2001	60,000
2002	60,000
2003	5,000
Total minimum lease payments	\$125,000

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

**PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2000**  
**(Continued)**

**17. OPERATING LEASES - LESSEE DISCLOSURE (continued)**

- 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 \$624 for the year.

The following is a schedule of the future minimum payments required under the operating lease as of June 30, 2000.

Year Ending June 30,	
2001	3,617
2002	3,617
2003	3,617
2004	3,617
2005	3,316
Total minimum lease payments	\$17,784

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

The School accumulated a deficit of \$81,447 and operating loss of \$214,045 for the year ended June 30, 2000, and is also delinquent in some payments to vendors. Management plans to eliminate the deficit with the following actions:

- A) Management has increased recruiting avenues and advertising to raise enrollment in the School. The School has added the 11<sup>th</sup> grade for year 2001 and will be at full grade capacity with the additional of 12<sup>th</sup> grade in year 2002.
- B) The School's budget was reviewed by management before submitting the 2001 forecast. Expenses were assessed as to the needs of the School with reductions being made to unnecessary line items that related to the initial start-up of the School. Items relating to capital acquisitions not needed during a second operating year were reduced.
- C) The School participates in various Federal grant programs of which approximately \$18,000 was owed to the School. The School has been awarded \$17,192 in Title I funds, \$ 624 in Title II funds, \$ 1,400 in Title IV funds, \$ 1,400 in Title VI-R funds and \$ 774 in Title VI funds.
- D) The School has been awarded \$23,600 in SchoolNet grants. A \$50,000 grant from General Mills Corporation has been applied for 2001. For year 2002, \$ 11,000 has been awarded by the E-Rate program.
- E) The School has entered into a revolving note, as identified in Note 19, to meet operating expenses.

**PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2000**  
**(Continued)**

**19. SUBSEQUENT EVENTS**

On September 20, 2000, the note debt referred to in Note 15 had been rolled into a revolving note, permitting advances as needed of up to \$75,000, and extending the maturity until March 30, 2001. On January 17, 2001, the School entered into a revolving line of credit note with a maximum amount of \$150,000, paying off the \$75,000 note modification, and establishing the new note without a maturity date, however, the note indicates that it is payable on demand. As of the date of the opinion, \$140,000 was outstanding on the note.

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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 Performing Arts School of Metropolitan Toledo, Lucas County, (the School) for the year ended June 30, 2000, and have issued our report thereon dated March 28, 2001. 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 generally accepted auditing standards 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 2000-10148-001 and 2000-10148-002. We also noted a certain immaterial instance of noncompliance that we have reported to management of the School in a separate letter dated March 28, 2001 that did not require inclusion in this report.

**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 2000-10148-003.

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 do consider the reportable condition described above, item 2000-10148-003, 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 28, 2001.

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 28, 2001



**PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO  
SCHEDULE OF FINDINGS  
FOR THE Year ENDED JUNE 30, 2000**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2000-10148-001**

**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 Rev. Code § 3314.08 (D), then the debt must be issued in accordance with Ohio Rev. 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 year in which such money was borrowed.”

During the year ended June 30, 2000, the School issued a \$70,000 note to be used for general operating expenses, with a maturity date of August 30, 2000. The note in question is general in nature. Because the note does not specifically exclude the School’s Ohio Rev. Code § 3314.08(D) funds from the general collateral provisions, this note obligates these monies. On September 20, 2000, this note was modified into a revolving-note from the bank in order to continue rolling any unpaid principal over past the set maturity dates. Therefore, Ohio Rev. 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 Rev. Code § 3314.08(J) at year end.

**FINDING NUMBER 2000-10148-002**

**Noncompliance Citation**

Ohio Rev. Code Section 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 Rev. 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 the year, 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.

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

**FINDING NUMBER 2000-10148-003**

**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.



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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  
MAY 29, 2001**