PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO
LUCAS COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2002

Auditor of State
Betty Montgomery

PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Governing Board:

We were engaged to audit the Balance Sheet of the Performing Arts School of Metropolitan Toledo, Lucas County, (the School) as of June 30, 2002, and the related Statement of Revenues, Expenses, and Changes in Accumulated Deficit, and the Statement of Cash Flows for the year ended June 30, 2002. These financial statements are the responsibility of the School's management.

We were unable to obtain sufficient evidential matter to satisfy ourselves on the completeness of the following revenue accounts: Food Services, Extracurricular Activities, Classroom Materials and Fees, Other Operating Revenues and Contributions and Donations revenue stated as $584, $2,029, $1,613, $19,673, and $16,396 respectively for the fiscal year ended June 30, 2002. In addition, management declined to provide certain representations about the financial statements which are required by auditing standards generally accepted in the United States of America.

Since the management of the school declined to provide certain representations and we were unable to obtain sufficient evidential matter supporting the aforementioned revenue accounts, the scope of our work was not sufficient to express, and we do not express an opinion on these financial statements.

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 $457,340 for the year ended June 30, 2002, has a working capital deficiency of $580,171 and an accumulated deficit of $471,740 as of June 30, 2002. 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.

Betty Montgomery

Betty Montgomery
Auditor of State

July 14, 2003

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PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO

BALANCE SHEET
AS OF JUNE 30, 2002

Assets	
Current Assets	
Cash and Cash Equivalents with Fiscal Agent	$7,503
Intergovernmental Receivable	6,231
Account Receivable	2,054
Total Current Assets	15,788
Non-Current Assets	
Fixed Assets (Net of Accumulated Depreciation)	124,858
Total Assets	$140,646
Liabilities and Equity	
Current Liabilities	
Accounts Payable	$204,462
Accrued Wages and Benefits Payable	107,309
Intergovernmental Payable	128,123
Due to Students	534
Accrued Interest Payable	421
Notes Payable - Current Portion	155,110
Total Current Liabilities	595,959
Note Payable-Long Term Portion	
Note Payable	16,427
Total Liabilities	612,386
Equity	
Accumulated Deficit	(471,740)
Total Liabilities and Equity	$140,646

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, 2002

Operating Revenues	
Foundation Payments	$523,648
Special Education Payments	20,935
Disadvantaged Pupil Impact Aid	2,779
Food Services	584
Extracurricular Activities	2,029
Classroom Materials and Fees	1,613
Other Operating Revenues	19,673
Total Operating Revenues	571,261
Operating Expenses	
Salaries	473,900
Fringe Benefits	189,320
Purchased Services	288,980
Materials and Supplies	21,342
Depreciation	50,393
Other Operating Expenses	4,666
Total Operating Expenses	1,028,601
Operating (Loss)	(457,340)
Non-Operating Revenues (Expenses)	
Grants Received - State	8,431
Grants Received - Federal	341,709
Contributions and Donations	16,396
Interest Earnings	636
Interest and Fiscal Charges	(11,120)
Loan Proceeds	3,200
Loan Payments	(3,200)
Total Non-Operating Revenues (Expenses)	356,052
Net Income	(101,288)
Accumulated Deficit at Beginning of Year	(370,452)
Accumulated Deficit at End of Year	($471,740)

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, 2002

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from State of Ohio	$610,526
Cash Received from Food Services	584
Cash Received from Extracurricular Activities	2,029
Cash Received from Classroom Materials and Fees	2,023
Cash Received from Other Operating Revenues	23,242
Cash Payments to Suppliers for Goods and Services	(367,836)
Cash Payments to Employees for Services	(460,746)
Cash Payments for Employee Benefits	(135,323)
Cash Payments for Other Operating Uses	(13,484)
Net Cash Used for Operating Activities	(338,985)
Cash Flows from Noncapital Financing Activities	
Grants Received - State	8,431
Grants Received - Federal	342,456
Contributions and Donations	14,342
Net Cash Provided by Noncapital Financing Activities	365,229
Cash Flows from Capital and Related Financing Activities	
Payments for Capital Acquisitions	(30,658)
Principal Payments	(3,823)
Interest Payments	(11,534)
Net Cash Used for Capital and Related Financing Activities	(46,015)
Cash Flows from Investing Activities	
Cash Received from Interest on Investments	636
Net Cash Provided by Investing Activities	636
Net Decrease in Cash and Cash Equivalents	(19,135)
Cash and Cash Equivalents at the Beginning of the Year	26,638
Cash and Cash Equivalents at the End of the Year	$7,503

(Continued)

PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)

Reconciliation of Operating Loss to	
Net Cash Used for Operating Activities	
Operating Loss	($457,340)
Adjustments to Reconcile Operating Loss to	
Net Cash Used for Operating Activities	
Depreciation	50,393
Changes in Assets and Liabilities:	
Decrease in Account Receivable	3,979
Decrease in Prepaid Items	181
(Decrease) in Accounts Payable	(71,067)
Increase in Accrued Wages Payable	24,364
Increase in Intergovernmental Payable	110,505
Total Adjustments	118,355
Net Cash Used for Operating Activities	($338,985)

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

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, 15 certificated full time teaching personnel who provide services to 158 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.

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.

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.

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 Special Education 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 2002 school year totaled $547,362.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2002, 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, 2002, the carrying amount of the School's deposits was $7,503 and the bank balance was $10,146. The bank balance was covered by federal depository insurance.

5. RECEIVABLES

Receivables at June 30, 2002, 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, 2002, follows:

	Balance 6/30/02
Furniture and Equipment	$130,064
Leasehold Improvements	121,895
Subtotal:	251,959
Less: accumulated depreciation	(127,101)
Net Fixed Assets	$124,858

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, 2001 through June 30, 2002, 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. Settled claims have not exceeded this 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 Cincinnati Insurance Company.

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 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, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

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; 5.46 percent was the portion used to fund pension obligations for fiscal year 2002. For fiscal years 2001 and 2000, 4.2 and 5.5 percent respectively were the portions 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, 2002, 2001 and 2000 were $3,837, $4,704 and $4,195, respectively; 59.34 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. The unpaid contribution for fiscal year 2002 in the amount of $1,560 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 2002 and 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, 2001 and 2000 were $32,483, $30,781 and $16,377, respectively; 71.77 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. The unpaid contribution for fiscal year 2002, in the amount of $9,169 has been recorded as a liability.

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 2002, 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 $15,387 during the fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was $3,256 million at June 30, 2001 (the latest information available). For the fiscal year ended June 30, 2001, net health care costs paid by STRS were $300,772,000, and STRS had 102,132 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, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll, a decrease of 1.3 percent from fiscal year 2001. 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 2002, the minimum pay has been established at $12,400. For the School, the amount to fund health care benefits, including the surcharge, was $13,406 during the 2002 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, 2001 (the latest information available), were $161,439,934, and the target level was $242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of $315.7 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.

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 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 School at June 30, 2002.

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.

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 the fiscal year 2000 and 2001 review resulted in state funding being adjusted. The School foundation payments were reduced by $67,175 during fiscal 2002 and an additional $63,164 will be deducted during fiscal 2003. An adjustment for unpaid audit costs in the amount of $6,289 will also be deducted from the 2003 foundation payments. The $63,164 and $6,289 are reflected as intergovernmental payables at June 30, 2002. As a result of the 2002 review, the School state foundation funding will decrease by $601 for fiscal year 2003.

D. Real Estate Tax Exemption Status

The School leased a building from Gomez Enterprises, L.P. and as 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, 2002 Gomez Enterprises, L.P. is owed $33,099 for back real estate taxes. The $33,099 was not reported as an accounts payable of the School at June 30, 2002.

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 2002 totaled $13,790, 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:

A. Maintain custody of all funds received by the school in segregated accounts separate from the Sponsor's or any other Community School's funds;

B. Maintain all books and accounts of the school;

C. 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;

D. Assist the school in meeting all financial reporting requirements established by the Auditor of Ohio;

E. 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.

F. 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, 2002, purchased service expenses were payments for services rendered by various vendors, as follows:

PURCHASED SERVICES	
Director's Fees (TDOMT)	$65,133
Utilities	33,631
Property Services	95,790
Professional and Technical Services	47,400
Lucas County Educational Service Center (See Note 13.)	5,498
Communications	3,375
Contracted Craft	29,709
Meeting Expenses	4,306
Other Purchased Services	4,138
Total Purchased Services	$288,980

15. DEBT

Debt outstanding at June 30, 2002 was as follows:

	Principal	Interest
Demand Note (Sky Bank)	$150,000	Prime + 1%
Installment Note (Sky Bank)	21,537	Prime + 1%
Total	$171,537	

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 2002 was $8,885. 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 $516 beginning on July 30, 2001. This note is secured by all business assets of the School.

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 notes above do not specifically exclude State foundation monies and extended beyond year end, contrary to State statutes.

The annual requirements to amortize the installment note outstanding, based on the current interest rate, are as follows at June 30, 2002.

Year Ending June 30,	Principal	Interest	Total
2003	$5,110	$1,592	$6,702
2004	5,039	1,148	6,187
2005	5,464	724	6,188
2006	5,924	264	6,188
Total	$21,537	$3,728	$25,265

16. RELATED PARTY TRANSACTIONS

During the year ended June 30, 2002, 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 School Board member. Expenses recognized under this agreement were $83,133. Mr. Fifer was also reimbursed the amount of $695 for supplies and materials. At June 30, 2002, $29,201 was due to TDOMT, but TDOMT owes the School $22,355 for the employees' portion of SERS on past wages. The two amounts were netted and the resulting amount was posted as an Accounts Payable.

TDOMT made a $3,200 loan to the School during the year and it was repaid prior to the end of the fiscal year.

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. The School made payments totaling $50,000 for the year which covered December 2000 through September 2001. As of June 30, 2002 the School owes $45,000 on the fiscal year 2002 lease and this amount is shown as an Account Payable.

The following is a schedule of the future minimum payments required under the operating lease as of June 30, 2002.

Year Ending June 30,	
2003	$5,000

The School has the option to renew the lease at an inflation-adjusted rate for two additional five-year terms. The School has renewed the lease for the period August 1, 2002 through July 31, 2007.

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 $3,014 for the year which was during the period June 2001 through March 2002. As of June 30, 2002 the School owes $904 on the fiscal year 2002 lease and this amount is shown as an Account Payable.

The following is a schedule of the future minimum payments required under the operating lease as of June 30, 2002:

Year Ending June 30,	
2003	$3,617
2004	3,617
2005	3,316
Total minimum lease payments	$10,550

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

The School accumulated a deficit of $471,740 and operating loss of $457,340 for the year ended June 30, 2002, and is also delinquent in some payments to vendors. Management plans to eliminate the deficit with the following actions:

A. Plan to reduce expenditures for salaries and benefits by downsizing staff to create a ratio of 15-1.

B. Rent that was due in the amount of $60,000 has been forgiven by the landlord.

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 S. Reynolds Road
Toledo, Ohio 43615-6314

To the Governing Board:

We were engaged to audit the financial statements of the Performing Arts School of Metropolitan Toledo, Lucas County, (the School) for the year ended June 30, 2002, and have issued our report thereon dated July 14, 2003, wherein we noted we were unable to obtain sufficient evidence to determine the completeness of the food services, extracurricular activities, classroom materials and fees, other operating revenues and contributions and donations receipts reported on the financial statements for the year ended June 30, 2002, that management declined to provide certain representations about the financial statements which are required by auditing standards generally accepted in the United States of America, and that we were unable to express an opinion on these financial statements. Our report also expressed substantial doubt as to the ability of the School to continue as a going concern.

Compliance

We performed tests of the School's 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2002-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the School in a separate letter dated July 14, 2003.

Internal Control over Financial Reporting

In performing certain audit procedures, 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, upon which financial statements we were unable to express an opinion, and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. 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 conditions are described in the accompanying schedule of findings as items 2002-002, 2002-003, and 2002-004.

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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, of the reportable conditions described above, we consider items 2002-002, 2002-003, and 2002-004 to be material weaknesses. 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 July 14, 2003.

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.

Betty Montgomery

Betty Montgomery
Auditor of State

July 14, 2003

PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO

SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2002

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

FINDING NUMBER 2002-001

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 then 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 an 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 2002-002

Material Weakness - Fixed Asset 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 develops and implements 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.

FINDING NUMBER 2002-002
(Continued)

- The School develops and implements 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.

FINDING NUMBER 2002-003

Material Weakness - Segregation of Duties – Food Services, Extracurricular Activities, Classroom Materials and Fees, Other Operating Revenues, and Contributions and Donations

The revenue received, other than intergovernmental monies, interest, and loan proceeds were not always accounted for. When monies were deposited, the types of monies that the deposit represented was not always clearly marked on the deposit slip which was submitted to the Lucas County Educational Service Center for posting. The employees and management at the School indicated when cash was received, it was not always deposited, but would be used to purchase items needed for the School. Copies of these cash purchases were not clearly maintained as support. A receipt book was maintained at the School; however, not all monies received were posted to the receipt book and it was not always marked whether the monies recorded were received in the form of cash or checks. Monies were not adequately safeguarded prior to deposit. Several individuals had access to the monies which included monies received from vending machine sales.

There is no apparent management oversight or any budget to actual review performed by management, or the Board, to ensure monies are properly collected, recorded, posted, and deposited at the bank for revenue collected. These duties should be segregated to aid in the prevention of error, misappropriation and possible theft of school assets.

We recommend the School segregate the collection, recording, and depositing of revenue. All deposit slips and the receipt book should clearly indicate the type of revenue collected and whether the monies were received in the form of cash or check. Also, management should devise a system to monitor these financial activities with anticipated benchmarks to ensure that all monies collected, get deposited and posted to the financial statements in the correct account.

FINDING NUMBER 2002-004

Material Weakness - Expenditure Process

Forty-seven percent of the vouchers tested did not have the Director's, or the Fiscal Agent's signatures or initials to indicate expenditures were approved. Also, 12 percent of the vouchers did not have adequate documentation.

Adequate documentation, review and approval of expenditures by the Director and Fiscal Agent are key controls in the disbursement process to determine that expenditures are for their intended use, within budget, and charged against the proper fund code.

FINDING NUMBER 2002-004
(Continued)

Lack of adequate documentation and proper review and approval of expenditures could result in funds being spent on purchases that are not for their intended use, disbursements that exceed budgeted amounts, payments made to fictitious vendors, and expenditures charged to the incorrect account.

We recommend the Director and the Fiscal Agent review and approve all purchases before a check is issued. Also, adequate documentation of the purchases and documentation of the approvals should be required prior to payment.

PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2002

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***:
2001-10148-001	School issued debt with maturity date later then the end of fiscal year in which money was borrowed.	No	Not Corrected. Reissued as Finding Number 2002-001.
2001-10148-002	School made no contributions to SERS on behalf of the two Directors.	No	Partially corrected. School began making contributions and is in the process of making payments for prior years
2001-10148-003	No fixed asset policy or procedures	No	Not Corrected. Reissued as Finding Number 2002-002.

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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
AUGUST 14, 2003