PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO
LUCAS COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2004

Auditor of State
Betty Montgomery

PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO
LUCAS COUNTY

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INDEPENDENT ACCOUNTANTS' REPORT

Performing Arts School of Metropolitan Toledo
Lucas County
425 Jefferson Avenue
Toledo, Ohio 43604

To the Governing Board:

We have audited the accompanying basic financial statements of the Performing Arts School of Metropolitan Toledo, Lucas County, (the School), as of and for the year ended June 30, 2004 , as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 Performing Arts School of Metropolitan Toledo, Lucas County, as of June 30, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As of June 30, 2004, the School has an accumulated deficit and is delinquent in paying certain obligations. Note 17 provides more information.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 13, 2005 on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards.* You should read it in conjunction with this report in assessing the results of our audit.

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Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Betty Montgomery

Betty Montgomery
Auditor of State

April 13, 2005

PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO
LUCAS COUNTY

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

The discussion and analysis of the Performing Arts School of Metropolitan Toledo's financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the School's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Government issued June, 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

- In total, net assets increased $48,168, which represents an 11.94 percent increase from 2003. This increase was due to the School maintaining revenues and expenditures near the prior fiscal year levels, which produced a positive change in net assets.

- Total assets decreased $35,636, which represents a 36.0 percent decrease from 2003. This was primarily due to the decrease in Net Depreciable Capital Assets.

- Total Current Liabilities increased $51,993, which represents a 10.58 percent increase from 2003. Accounts Payable decreased $52,411 and Accrued wages and benefits increased $11,685, while intergovernmental payables related to accrued pension benefits decreased by $5,990. Accounts Payable decreased as a result of the School experiencing financial stress, and difficulties in paying bills timely. The increases in accrued wages and benefits were due primarily to increases in employee contracts and the employee's contract remaining accrual amount.

Using this Financial Report

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

Statement of Net Assets

The Statement of Net Assets answers the question, "How did we do financially during 2004?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

Table 1 provides a summary of the School's net assets for fiscal year 2004 and fiscal year 2003:

(Table 1)
Net Assets

	2004	2003
Assets		
Current Assets	$ 30,647	$ 19,334
Capital Assets, Net	32,661	79,610
Total Assets	63,308	98,944
Liabilities		
Current Liabilities	440,043	491,436
Non-Current Liabilities	10,480	10,803
Total Liabilities	450,523	502,239
Net Assets		
Invested in Capital Assets	32,661	79,610
Restricted for Grants	7,212	
Unrestricted	(395,000)	(482,905)
Total Net Assets	$ (355,127)	$ (403,295)

Total assets decreased $35,636. This was primarily due to a decrease in capital assets, net of accumulated depreciation of $46,949. While cash and cash equivalents increased by $1,704, total intergovernmental receivables increased by $8,666.

Table 2 shows the changes in net assets for fiscal year 2004 and fiscal year 2003, as well as a listing of revenues and expenses.

(Table 2)
Change in Net Assets

	2004	2003
Operating Revenues:		
Charges for Services and Sales	$ 14,358	$ 1,975
Foundation Payments	712,845	747,070
Disadvantaged Pupil Impact Aid	-	2,623
Special Education	28,303	23,698
Extracurricular Activities	9,742	5,339
Other	26,263	26,202
Total Revenues	791,511	806,907
Operating Expenses		
Salaries	460,095	458,165
Fringe Benefits	131,771	86,324
Purchased Services	74,175	168,188
Materials and Supplies	28,849	9,026
Depreciation	52,857	51,677
Other Expenses	66,027	34,372
Total Expenses	813,774	807,752
Non-Operating Revenues and (Expenses)		
Operating Grants - Federal	58,091	65,442
Operating Grants - State	6,320	10,501
Contributions and Donations	3,659	2,820
Other Non-operating Revenue	10,613	-
Interest	67	286
Interest and Fiscal Charges	(8,319)	(9,759)
Total Non-Operating Revenues and (Expenses)	70,431	69,290
Increase / (Decrease) in Net Assets	$ 48,168	$ 68,445

While operating revenues decreased from 2003 to 2004, operating expenses increased slightly. Non-operating revenues also increase which produced an overall decrease in the deficit of $48,168. There was a decrease in revenues of $15,695 and an increase in expenses of $4,582 from 2003. Of the decrease in revenues, the foundation payments decreased by $45,439, the Special Education increased by $4,605 and classroom fees increased by $12,383. Community Schools receive no support from tax revenues.

For 2004 the expense for salaries increased by $1,930, and the expense for fringe benefits increased by $45,447. This was primarily due to higher premiums for medical and accrual of leave balances during fiscal year 2004. Purchased services expense decreased by $94,013 and material and supplies expense increased by $19,823 from 2003. For 2004 depreciation expense increased by $1,180. According to the School's capital asset policy, a full year's depreciation is expensed for capital assets in the year they are purchased.

Accumulated Deficit and Operating Loss

The Net Assets deficit of $355,127 was a decrease of $48,168 from 2003. The School is continuing to analyze operations and admissions procedures to alleviate the remaining deficit.

Capital Assets

At the end of fiscal year 2004 the School had $32,661 (net of $231,635 in accumulated depreciation) invested in furniture, equipment, and leasehold improvements. Table 3 shows fiscal year 2004 and fiscal year 2003:

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

	2004	2003
Furniture, Fixtures, and Equipment	$ 30,661	$ 53,233
Leasehold Improvement	2,000	26,377
Totals	$ 32,661	$ 79,610

For more information on capital assets see Note 6 to the basic financial statements.

Current Financial Issues

Performing Arts School of Metropolitan Toledo of Northwest Ohio Inc., d.b.a. Performing Arts School of Metropolitan Toledo (the School) was approved for operation under a contract with the Lucas County Educational Service Center (the Sponsor). During the 2003/2004 school year, there were approximately 128 students enrolled in the School. The School receives its finances mostly from state aide. Per pupil aide for fiscal year 2004 amounted to $4,949 per student.

Contacting the School's Financial Management

This financial report is designed to provide our citizen's with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional information contact Ms. Kari DiCianni of Performing Arts School of Metropolitan Toledo, Administrative Director at Performing Arts School of Metropolitan Toledo, 425 Jefferson Ave., Toledo, Ohio 43612 or e-mail at kdicianni@hotmail.com.

PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO
LUCAS COUNTY

STATEMENT OF NET ASSETS
JUNE 30, 2004

Assets	
<u>Current Assets</u>	
Equity in Pooled Cash and Cash Equivalents	$ 9,090
Accounts Receivable	1,394
Intergovernmental Receivable	18,488
Prepaid Items	1,675
Total Current Assets	30,647
<u>Non-Current Assets</u>	
Capital Assets:	
Depreciable Capital Assets, Net	32,661
Total Assets	63,308
Liabilities	
<u>Current Liabilities</u>	
Accounts Payable	199,917
Accrued Wages and Benefits	72,270
Intergovernmental Payable	16,282
Due to Students	1,574
Note Payable	150,000
Total Current Liabilities	440,043
<u>Non-Current Liabilities</u>	
Due Within One Year	5,660
Due In More Than One Year	4,820
Total Non-Current Liabilities	10,480
Total Liabilities	450,523
Net Assets	
Invested in Capital Assets	32,661
Restricted For Grants	7,212
Unrestricted	(395,000)
Total Net Assets	$ (355,127)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO
LUCAS COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Enterprise
Operating Revenues	
Foundation Payments	$ 712,845
Special Education	28,303
Classroom Fees	14,358
Extracurricular Activities	9,742
Other Revenues	26,263
Total Operating Revenues	791,511
Operating Expenses	
Salaries	460,095
Fringe Benefits	131,771
Purchased Services	74,175
Materials and Supplies	28,849
Depreciation	52,857
Other	66,027
Total Operating Expenses	813,774
Operating Loss	(22,263)
Non-Operating Revenues and Expenses	
Operating Grants- Federal	58,091
Operating Grants- State	6,320
Interest	67
Contributions and Donations	3,659
Other Non-Operating Revenue	10,613
Interest and Fiscal Charges	(8,319)
Total Non-Operating Revenues and Expenses	70,431
Change in Net Assets	48,168
Net Assets Beginning of Year	(403,295)
Net Assets End of Year	$ (355,127)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO
LUCAS COUNTY

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

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities	
Cash Received from Foundation Payments and Special Education	$ 737,296
Cash Received from Classroom Fees	14,188
Cash Received from Other Operating Revenues	38,657
Cash Payments to Suppliers for Goods and Services	(254,683)
Cash Payments to Employees for Services	(457,126)
Cash Payments for Employee Benefits	(130,830)
Net Cash Used for Operating Activities	(52,498)
Cash Flows from Noncapital Financing Activities	
Federal Grants Received	53,277
State Grants Received	6,320
Cash Received from Contributions and Donations	3,659
Other Noncapital Financing	10,613
Net Cash Provided by Noncapital Financing Activities	73,869
Cash Flows from Capital and Related Financing Activities	
Payments for Capital Acquisitions	(5,908)
Payment for Principal Payments	(5,507)
Payments for Interest	(8,319)
Net Cash Used for Capital and Related Financing Activities	(19,734)
Cash Flows from Investing Activities	
Interest	67
Net Cash Provided by Investing Activities	67
Net Increase in Cash and Cash Equivalents	1,704
Cash and Cash Equivalents at Beginning of Year	7,386
Cash and Cash Equivalents at End of Year	$ 9,090

(Continued)

PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO
LUCAS COUNTY

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

Reconciliation of Operating Loss to Net Cash Used for Operating Activities		
Operating Loss	$	(22,263)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation		52,857
Changes in Assets and Liabilities:		
Increase in Accounts Receivable		(49)
Increase in Intergovernmental Receivable		(3,852)
Increase in Prepaid Items		(894)
Increase in Due to Students		507
Decrease in Accounts Payable		(84,499)
Increase in Accrued Wages Payable		11,685
Decrease in Intergovernmental Payable		(5,990)
Total Adjustments		(30,235)
Net Cash Used for Operating Activities	$	(52,498)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 1 - DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

The Performing Arts School of Metropolitan Toledo (the School) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School's objective is to provide academic and artistic growth in a disciplined and nurturing environment to students in grades 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 sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School. The School qualifies as an exempt organization under Section 501c (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 was approved for operation under contract with the Lucas County Educational Service Center (the Sponsor) through June 2005. 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.

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 2 non-certified and 15 certificated personnel who provide services to 128 students.

NOTE 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, to its proprietary activities, provided they do not conflict with or contradict GASB pronouncements. The more significant of the School's accounting policies are described below.

A. Basis of Presentation

The School's basic financial statements consist of a statement of net assets, a statement of revenue, expenses, and changes in net assets, and a statement of cash flows. Enterprise fund reporting focuses on the determination of the change in net assets, financial position, and cash flows.

B. 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 statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the School finances and meets the cash flow needs of its enterprise activities.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The School's financial statements are prepared using the accrual basis of accounting.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. 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.

Expenses are recognized at the time they are incurred.

D. 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 contract between the School and 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.

E. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

F. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School maintains a capitalization threshold of five hundred dollars. The School does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Furniture and Equipment	5 years
Leasehold Improvements	5 years

G. Compensated Absences

Vacation, sick leave, and personal leave are not accrued as a liability. The School does not allow carryover of leave balances from one year to the next.

H. Net Assets

Net assets represent the difference between assets and liabilities. Invested in Capital Assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors or regulations of other governments.

I. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the School, these revenues are primarily the State Foundation program and the State Special Education program. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the School. Revenues and expenses not meeting this definition are reported as non-operating.

J. Estimates

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

K. Cash and Investments

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 accounts in the School’s name. Monies for the School are maintained in these accounts or temporarily used to purchase short-term investments.

For presentation on the financial statements, investments with an original maturity of three months or less at the time they are purchased by the School are considered to be cash equivalents.

L. Intergovernmental Revenues

The School currently participates in the State Foundation Program, and the State Special Education Program. Revenues received from these programs are recognized as operating revenues (foundation payments) in the accounting period in which they are earned and become measurable.

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 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.

NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLES

For 2004, The School has implemented GASB Statement No. 34, *"Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments"*; GASB No. 37 *"Basic Financial Statements for State and Local Governments: Omnibus"*, GASB No. 38, *"Certain financial Statement Note Disclosures"*, and GASB Interpretation No. 6, *"Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements"*. At June 30, 2004, there was no effect on the financial statements as a result of implementing GASB 34, 37, 38 and Interpretation No. 6.

GASB 34 creates new basic financial statements for reporting on the School's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting. The beginning net assets amount for the business-type activities equals fund equity of the enterprise funds from last year.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of Management's Discussion and Analysis.

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

GASB Interpretation of No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

NOTE 4 - DEPOSITS

At June 30, 2004, the carrying amount of the School's deposits was $9,090 and the bank balance was $17,210. The bank balance was covered by Federal Depository Insurance Corporation (FDIC).

NOTE 5 - RECEIVABLES

Receivables at June 30, 2004, consisted of accounts and intergovernmental grants. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of intergovernmental receivables follows:

	Amounts
Foundation Payments	$ 11,214
Title IIA '04 - Technology	5,880
Title IID ;04	747
Title IV	647
Total All Intergovernmental Receivables	$ 18,488

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004:

	Balance 6/30/03	Additions	Deletions	Balance 6/30/04
Business-Type Activity				
Capital Assets Being Depreciated				
Furniture, Fixtures, and Equipment	$ 136,493	$ 5,908	$ -	$ 142,401
Leasehold Improvements	121,895		-	121,895
Total Capital Assets Being Depreciated	258,388	5,908	-	264,296
Less Accumulated Depreciation:				
Furniture, Fixtures, and Equipment	83,260	28,480	-	111,740
Leasehold Improvements	95,518	24,377	-	119,895
Total Accumulated Depreciation	178,778	52,857	-	231,635
Business-Type Activity Capital Assets, Net	$ 79,610	$ (46,949)	$ -	$ 32,661

NOTE 7 - RISK MANAGEMENT

A. Property and Liability

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the year ended 2004, the School contracted with the Cincinnati Insurance Company for the following insurance coverages:

Commercial Property ($1,000 deductible)	$ 940,000
Commercial General Liability per Occurrence	1,000,000
Commercial General Liability Aggregate	2,000,000
Commercial General Liability Personal & Advertising Injury	1,000,000
Teacher's Professional Liability per Occurrence	1,000,000
Teacher's Professional Liability Aggregate	2,000,000

The School owns no real estate, but leased a facility located at 630 South Reynolds Road, Toledo, Ohio. (See Note 16)

B. Workers' Compensation

The School pays the State Workers' 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.

NOTE 8 - NOTES PAYABLE

On January 17, 2001, the School entered into a revolving line of credit in the amount of $150,000, payable on demand. The note bears a variable interest rate of one percentage point above the prime rate. The terms of the note include monthly interest payments, which totaled $7,638 for 2004. The note is collateralized by all assets of the School.

On April 19, 2001, the School entered into an installment note in the amount of $25,360. The terms of the note included the repayment of principal and interest at June 30. The note was modified on June 28, 2001 to include sixty monthly principal and interest payments of $516 beginning on July 30, 2001. The note bears a variable interest rate of one percentage point above the prime. The note matures on June 30, 2006, and is collateralized by all assets of the School.

	Balance 07/01/03	Additions	Deletions	Balance 06/30/04
Short-Term Note Payable				
Demand Note (Sky Bank)	$ 150,000	$ -	$ -	$ 150,000
Total Short Term Note Payable	$ 150,000	$ -	$ -	$ 150,000

	Balance 07/01/03	Additions	Deletions	Balance 06/30/04	Due Within One year
Long-Term Note Payable					
Installment Note (Sky Bank)	$ 15,987	$ -	$ 5,507	$ 10,480	$ 5,660
Total Long Term Note Payable	$ 15,987	$ -	$ 5,507	$ 10,480	$ 5,660

The following is a schedule of the future payments required for the installment note payable as of June 30, 2004:

Year Ending June 30,	Principal	Interest
2005	$ 5,660	$ 527
2006	4,820	340
Total	$ 10,480	$ 867

NOTE 9 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004 and 2003 were $6,837 and $7,000 respectively; 94.99 percent has been contributed for fiscal year 2004 and 100 percent for 2003.

B. State Teachers Retirement System of Ohio

The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance. For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2004 and 2003 were $55,402 and $53,042, respectively; 82.08 percent has been contributed for fiscal year 2004 and 100 percent for fiscal year 2003.

NOTE 10 - POSTEMPLOYMENT BENEFITS

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

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. 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 Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Ohio Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled $4,262 for fiscal year 2004.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2003, (the latest information available) the balance in the Fund was $3.011 billion. For the year ended June 30, 2003, net health care costs paid by STRS Ohio were $352,301,000 and STRS Ohio had 108,294 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 percent from fiscal year 2003. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at $25,400. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled $5,108.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2003 (the latest information available), were $204,930,737 and the target level was $307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of $303.6 million. SERS has approximately 50,000 participants currently receiving health care benefits.

NOTE 11 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation, personal leave, and sick leave are derived from policies and procedures approved by the Governing Board. Unused leave is not carried over from year to year.

B. Insurance Benefits

The School has contracted through the Lucas County Educational Service Center to provide dental and medical/surgical benefits to its full time employees. The School also provides vision benefits to most employees through Vision Service Plan.

NOTE 12 - 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 decision is unconstitutional.

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

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

NOTE 13 - 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the School. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2004.

B. State Funding

The Ohio Department of Education reviews enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews ensure the schools are reporting accurate student enrollment data of the State, upon which state foundation funding is calculated. As a result of said review, the School's State Foundation funding will be increased by $11,214 for fiscal year 2005, and will be added to future foundation payments. This amount has been included in the financial statements as an intergovernmental receivable.

C. Litigation

A lawsuit was filed in Franklin County Common Pleas Court on May 14, 2001 alleging Ohio's community (i.e. Charter) School's program violates the state Constitution and state laws. On April 21, 2003, the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed and the case was heard on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the stated public educational system and this matter was sent to the Ohio Supreme Court. The effect of this suit, if any on the Performing Arts School of Metropolitan Toledo is not presently determinable.

NOTE 14 - FISCAL AGENT

The School entered into a service agreement with the Treasurer of the Lucas County Educational Service Center to serve as the Chief Fiscal 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 allotment paid to the School from the State of Ohio. A total contract payment of $14,967 was paid during the year, and a liability in the amount of $973 was accrued as a liability for the year ended June 30, 2004.

The Treasurer shall perform all of the following functions while serving as the Chief Fiscal Officer of the School:

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

NOTE 15 - PURCHASED SERVICES

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

Professional and Technical Services	$	19,868
Property Services		5,548
Travel Mileage/Meeting Expense		6,187
Communications		6,396
Utilities		31,754
Contracted Craft or Trade Services		4,123
Tuition		259
Pupil Transportation Services		40
Total Purchased Services	$	74,175

NOTE 16 - OPERATING LEASES - LESSEE DISCLOSURE

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

The following is a schedule of the future minimum payments required under the operating lease as of June 30, 2004.

Year Ending	Facility Rental
2005	$ 66,000
2006	66,000
2007	66,000
2008	5,500
Total Minimum Payments	$ 203,500

The School is delinquent in the amount of $19,250 in payment of the lease. This is recorded as an accounts payable on the Schools books. In August of 2004, the landlord terminated the lease agreement.

The District entered into a new lease with Hillenbrand/Zaleski Secor, LLC. and is located at 425 Jefferson Avenue, Toledo. The lease term begins November 1, 2004 and is for a period of 3 years and 8 months. The current lease is being financed by increased student enrollment.

NOTE 17 - MANAGEMENT'S PLANS REGARDING ACCUMULATED DEFICIT

The School accumulated a deficit of $355,127, a working capital deficit of $409,396, and has an increase in net assets of $48,168 for the year ended June 30, 2004. The School is under financial distress and has been unable to pay venders, payroll, and taxes as these amounts become due. Management is developing a plan to eliminate the deficit. As of April 13, 2005 substantially the same situation exists.

NOTE 18 - SUBSEQUENT EVENTS

The School moved from its facilities in August 2004 and found temporary quarters to start the 2004/2005 school year. The School signed a lease agreement and moved to their current location at 425 Jefferson Avenue, Toledo, Ohio on November 1, 2004. The School has included $60,000 in the current financial statements as a payable to Gomez Enterprises (former landlord) based on a court judgment that the money is due the former landlord. The lease agreement included a requirement that the School pay the property taxes due on the Reynolds Road property. The School went to court to get that requirement waived. The court found in favor of the landlord and upheld the lease agreement. The School is currently appealing the ruling.

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Performing Arts School of Metropolitan Toledo
Lucas County
425 Jefferson Avenue
Toledo, Ohio 43604

To the Governing Board:

We have audited the basic financial statements of the Performing Arts School of Metropolitan Toledo, Lucas County, (the School) as of and for the year ended June 30, 2004, which comprises the School's basic financial statements and have issued our report thereon dated April 13, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider 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 management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2004-001 and 2004-002.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable condition 2004-001 listed above to be a material weakness**.** In a separate letter to the School's management dated April 13, 2005, we reported other matters involving internal control over financial reporting.

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Compliance and Other Matters

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the School's management dated April 13, 2005, we reported an other matter related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management, and the Governing Board. It is not intended for anyone other than these specified parties.

Betty Montgomery

Betty Montgomery
Auditor of State

April 13, 2005

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

FINDING NUMBER 2004-001

Material Weakness - Capital Asset Controls

The following control weaknesses over capital assets exist:

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

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

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

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

FINDING NUMBER 2004-002

Reportable Condition - Developing and Implementing an Effective Monitoring Control System

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

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

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

FINDING NUMBER 2004-002
(Continued)

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

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

PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO
LUCAS COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2004

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***:
2003-001	Inadequate controls over fixed assets.	No	Not corrected. Reissued as finding number 2004-001.
2003-002	Developing and Implementing an Effective Monitoring Control System	No	Not corrected. Reissued as finding number 2004-002.

Auditor of State
Betty Montgomery

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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 17, 2005