

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

AUDITED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2005



Mary Taylor, CPA
Auditor of State

Governing Board
Performing Arts School of Metropolitan Toledo
2740 W. Central Ave
Toledo, Ohio 43606

We have reviewed the *Independent Auditor's Report* of the Performing Arts School of Metropolitan Toledo, Lucas County, prepared by LublinSussman Group, LLP, for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Performing Arts School of Metropolitan Toledo is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

June 15, 2007

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

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Statements of Net Assets - As of June 30, 2005	8
Statement of Revenues, Expenses and Changes in Net Assets For the Fiscal Year Ended June 30, 2005	9
Statement of Cash Flows – For the Fiscal Year Ended June 30, 2005.....	10
Notes to the Financial Statements	12
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	27
Schedule of Prior Audit Findings.....	29

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INDEPENDENT AUDITOR'S REPORT

Performing Arts School of Metropolitan Toledo
Lucas County
2740 W. Central Avenue
Toledo, OH 43606

To the Governing Board:

We have audited the accompanying financial statements of the Performing Arts School of Metropolitan Toledo, Lucas County, Ohio, (the School), as of and for the year ended June 30, 2005, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Performing Arts School of Metropolitan Toledo, Lucas County, Ohio, as of June 30, 2005, and the changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Performing Arts School of Metropolitan Toledo, Lucas County, Ohio, will continue as a going concern. As discussed in Note 15 to the financial statements, the School has a large deficit, has poor cash flows, a decreasing student body, and has been unable to pay salaries and retirement benefits to its staff. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 15. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2006 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Lublin Sussman Group LLP
October 24, 2006
Toledo, Ohio

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2005
UNAUDITED**

The discussion and analysis of Performing Arts School of Metropolitan Toledo's (the School) financial performance provides an overall review of the Schools' financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the Schools' 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 Schools' 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

Key financial highlights of the School for the fiscal year ended June 30, 2005 are as follows:

- Total Assets were \$47,249. Total assets decreased \$16,059. This decrease was due to a reduction in intergovernmental revenues.
- Total Liabilities were \$403,346. Total liabilities decreased \$15,089. This decrease was due to a reduction in accrued wages and benefits.
- Total change in net assets was a decrease of \$970. This decrease was due to a decrease in students and a decrease in foundation payments. Expenses also decreased, but not enough to compensate the reduction in revenue.

Using this Annual 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.

Reporting the School as a Whole:

One of the most important questions asked about the School is, "As a whole, what is the School's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which appear first in the School's financial statements, report information on the School as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2005
UNAUDITED (CONTINUED)**

These two statements report the School's net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the School's financial health or financial position. Over time, increases or decreases in the School's net assets – as reported in the Statement of Net Assets – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School's operating results. However, the School's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the school, to assess the overall health of the School.

The Statement of Net Assets and the Statement of Activities report the activities for the School, which encompass all of the School's services, including instruction, support services, and community services. Unrestricted state aid and federal grants finance most of these activities.

Table 1 provides a summary of the Schools' net assets for fiscal year 2005 compared to fiscal year 2004:

Table 1
Net Assets

	2005	2004
Assets		
Current Assets	\$ 16,123	\$ 30,647
Security Deposits	8,500	0
Capital Assets, Net	<u>22,626</u>	<u>32,661</u>
<i>Total Assets</i>	<u>\$ 47,249</u>	<u>\$ 63,308</u>
Liabilities		
Current Liabilities	\$ 403,346	\$ 407,955
Non-Current Liabilities	<u>0</u>	<u>10,480</u>
<i>Total Liabilities</i>	<u>403,346</u>	<u>418,435</u>
Net Assets		
Invested in Capital Asset	22,626	32,661
Restricted for Grants	0	7,212
Unrestricted	<u>(378,723)</u>	<u>(395,000)</u>
<i>Total Net Assets</i>	<u>\$ (356,097)</u>	<u>\$ (355,127)</u>

Total assets decreased by \$16,059, which represents a 25.0 percent decrease from fiscal year 2004. Total liabilities decreased by \$15,089, which represents a 3.6 percent decrease from fiscal year 2004. The School's net assets decreased by \$970.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2005
UNAUDITED (CONTINUED)**

Table 2 shows the changes in net assets for the year ended 2005 as compared to fiscal year 2004.

Table 2
Change in Net Assets

	2005	2004
Revenues		
Operating Revenues:		
Foundation Payments	\$ 528,211	\$ 712,845
Disadvantaged Pupil Impact Aid	54,012	-
Special Education	-	28,303
Charges for Services and Sales	-	14,358
Classroom Materials & Fees	6,901	-
Extracurricular Activities	4,327	9,742
Other	382	26,263
Non-Operating Revenues:		
Operating Grants - Federal	45,290	58,091
Operating Grants - State	3,000	6,320
Contributions and Donations	4,833	3,659
Other Non-Operating Revenue	-	10,613
Interest	36	67
Total Revenues	646,992	870,261
Expenses		
Operating Expenses		
Salaries	326,168	460,095
Fringe Benefits	110,744	131,771
Purchased Services	169,537	74,175
Materials and Supplies	13,131	28,849
Depreciation	16,744	52,857
Other Expenses	-	66,027
Non-Operating Expenses:		
Interest and Fiscal Charges	11,638	8,319
Total Expenses	647,962	822,093
Increase/(Decrease) in Net Asset	\$ (970)	\$ 48,168

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2005
UNAUDITED (CONTINUED)**

While operating revenues decreased from fiscal year 2004 to 2005, operating expenses also decreased. Non-operating revenues also decreased which produced an overall decrease in the deficit of \$970. There was a decrease in revenues of \$223,269 and a decrease in expenses of \$174,131 from fiscal year 2004. Of the decrease in revenues, the foundation payments decreased by \$184,634, Special Education payments increased by \$23,291. Community Schools receive no support from tax revenues.

The expense for salaries decreased by \$133,927 and the expense for fringe benefits decreased by \$21,027 from fiscal year 2004. This was due to the reduction in staff. Purchased services, materials and supplies, and other expenses increased by \$13,617 from fiscal year 2004. Depreciation expense decreased by \$36,113.

Accumulated Deficit and Operating Loss

The Net Assets deficit of \$356,097 was a decrease of \$970 from fiscal year 2004. This decrease was due to a reduction in foundation payments due to the reduction in the number of students. The School is continuing to analyze operations and admissions procedures to alleviate the remaining deficit.

Capital Assets

At the end of fiscal year 2005 the School had \$23,628 invested in furniture, fixtures, and equipment, and leasehold improvements, which represents a decrease of \$9,033 from fiscal year 2005. Table 3 shows fiscal year 2005 and fiscal year 2004:

Table 3
Capital Asset at June 30, 2005
(Net of Depreciation)

	<u>2005</u>	<u>2004</u>
Furniture, Fixtures, and Equip.	\$ 16,259	\$ 30,661
Leasehold Improvements	6,367	2,000
Totals	<u>\$ 22,626</u>	<u>\$ 32,661</u>

For more information on capital assets see Note 5 to the basic financial statements.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2005
UNAUDITED (CONTINUED)**

Debt

At June 30, 2005 the School had \$153,016 in outstanding debt, \$5,257 of which is due within one year. Table 4 summarizes the debt outstanding.

Table 4
Outstanding Debt, at Year End

	<u>2005</u>	<u>2004</u>
Demand Note	\$ 145,729	\$ 150,000
Installment Note	5,257	10,480
Installment Note	<u>2,030</u>	<u>0</u>
Total Outstanding Debt	<u>\$ 153,016</u>	<u>\$ 160,480</u>

For more information on debt see Note 7 to the basic financial statements.

Current Financial Issues

The School's financial relationship with the Lucas County Educational Service Center aids in the raising of the quality of financial records and strengthens internal controls. During the 2004-2005 school year, there were approximately 93 students enrolled in the School. The School receives its finances mostly from state aid. Per pupil aid for fiscal year 2005 amounted to \$5,058 per student.

Contacting the Schools' Financial Management

This financial report is designed to provide our citizen's with a general overview of the Schools' finances and to show the Schools' accountability for the money it receives. If you have questions about this report or need additional information contact Ms. Kari DiCianni, Administrator of the Performing Arts School of Metropolitan Toledo, 2740 W. Central Avenue, Toledo, OH 43606 or e-mail at kdicianni@hotmail.org.

PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO
LUCAS COUNTY

STATEMENT OF NET ASSETS
FOR YEAR ENDED JUNE 30, 2005

Assets:

Current Assets:

Cash and Cash Equivalents (Note 3)	\$ 15,091
Accounts Receivable	1,032
Total Current Assets	<u>16,123</u>

Noncurrent Assets:

Security Deposit (Note 10)	8,500
Capital Assets, Net (Note 4)	<u>22,626</u>
Total Noncurrent Assets	<u>31,126</u>
Total Assets	<u><u>47,249</u></u>

Liabilities:

Current Liabilities:

Accounts Payable	200,701
Accrued Wages and Benefits Payable	38,427
Deferred Revenue	8,937
Due to Students	517
Intergovernmental Payable	1,748
Notes Payable (Note 6)	<u>153,016</u>
Total Current Liabilities	403,346

Non-Current Liabilities

	<u>0</u>
Total Liabilities	<u>403,346</u>

Net Assets (Deficit):

Investment in Capital Assets, Net of Related Debt	22,626
Unrestricted	<u>(378,723)</u>
Total Net Assets (Deficit)	<u><u>\$ (356,097)</u></u>

See Notes to Financial Statements

PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO
LUCAS COUNTY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR YEAR ENDED JUNE 30, 2005

<u>Operating Revenues:</u>	
Foundation Payments	\$ 528,211
Special Education	54,012
Classroom Fees	6,901
Extracurricular Activities	4,327
Other Operating Revenues	382
Total Operating Revenues	<u>593,833</u>
 <u>Operating Expenses:</u>	
Salaries	326,168
Fringe Benefits (Notes 7,8)	110,744
Purchased Services (Note 12)	169,537
Materials and Supplies	13,131
Depreciation	16,744
Other Operating Expenses	0
Total Operating Expenses	<u>636,324</u>
Operating Loss	<u>(42,491)</u>
 <u>Non-Operating Revenues and Expenses:</u>	
Operating Grants - Federal	45,290
Operating Grants - State	3,000
Contributions and Donations	4,833
Interest	36
Interest and Fiscal Charges	(11,638)
Total Non-Operating Revenues	<u>41,521</u>
Change in Net Assets	(970)
Net Assets (Deficit) at Beginning of Year	<u>(355,127)</u>
Net Assets (Deficit) at End of Year	<u><u>\$ (356,097)</u></u>

See Notes to the Financial Statements

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

**STATEMENT OF CASH FLOWS
FOR YEAR ENDED JUNE 30, 2005**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$ 602,374
Cash Received from Classroom Materials & Fees	6,631
Cash Received from Other Operating Sources	7,629
Cash Payments to Suppliers for Goods and Services	(163,699)
Cash Payments to Employees for Services	(357,679)
Cash Payments for Employee Benefits	(122,627)
Net Cash Used for Operating Activities	<u>(27,371)</u>

Cash Flows from Noncapital Financing Activities:

Cash Received from Operating Grants - Federal	52,564
Cash Received from Operating Grants - State	3,000
Cash Received Contributions and Donations	4,833
Net Cash Provided by Noncapital Financing Activities	<u>60,397</u>

Cash Flows from Capital and Related Financing Activities:

Cash Received from Proceeds of Notes	14,900
Cash Payments for Capital Acquisitions	(7,959)
Cash Payments for Principal Payments	(22,364)
Cash Payments for Interest Payments	(11,638)
Net Cash Used for Capital and Related Financing Activities	<u>(27,061)</u>

Cash Flows from Investing Activities:

Cash Received from Interest on Investments	<u>36</u>
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Net Increase in Cash and Cash Equivalents	6,001
Cash and Cash Equivalents at Beginning of Year	<u>9,090</u>
Cash and Cash Equivalents at End of Year	<u>\$ 15,091</u>

See Notes to the Financial Statements

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

**STATEMENT OF CASH FLOWS (CONTINUED)
FOR YEAR ENDED JUNE 30, 2005**

Reconciliation of Operating Loss	
<u>to Net Cash Used for Operating Activities:</u>	
Operating Loss	\$ (42,491)
Adjustments to Reconcile Operating Loss	
to Net Cash Used for Operating Activities:	
Depreciation	16,744
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	362
Decrease in Intergovernmental Receivable	18,488
Decrease in Prepaid Items	1,675
Increase in Accounts Payable	18,348
Increase in Deferred Revenue	8,937
Decrease in Due to Students	(1,057)
Decrease in Accrued Wages Payable	(33,843)
Decrease in Intergovernmental Payable	(14,534)
Net Cash Used for Operating Activities	<u>\$ (27,371)</u>

See Notes to the Financial Statements

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

NOTE 1 - DESCRIPTION OF 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 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 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 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 was approved for operation under a contract with the Lucas County Educational Service Center (the Sponsor) through June 2006. Effective July 1, 2006, the School changed its sponsor from the Lucas County Educational Service Center to the Board of Trustees of the University of Toledo. The contract is effective through June 30, 2011. 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. During the year ended June 30, 2005, the Treasurer of the Sponsor served as the Chief Financial Officer of the School. Effective August 1, 2006, the School changed its Chief Financial Officer from the Lucas County Educational Service Center to the Ohio Council of Charter Schools.

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 3 non-certified and 10 certificated personnel who provide services to 93 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 a governmental nonprofit organization. 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 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005 (CONTINUED)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Basis of Presentation

The School's basic financial statements consist of statement of net assets; a statement of revenues, expenses, and changes in net assets; and a statement of cash flows. The School uses enterprise accounting to track and report on its financial activities. 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 statements of net assets. The statement of revenues, expenses, and changes in net assets presents increases (e.g. revenues) and decreases (e.g. expenses) in net total assets. The statement of cash flow reflects how the School finances and meets the cash flow needs.

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 specific 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005 (CONTINUED)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 School's contract with its Sponsor does prescribe an annual budget requirement in addition to preparing a five-year forecast, which is to be updated on an annual basis.

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

F. Intergovernmental Revenues

The School currently participates in the State Foundation Program and the Special Education Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements are 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 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 year ended 2005 totaled \$630,513.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005 (CONTINUED)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expense is reported in the year in which services are consumed.

H. Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The School does not possess any infrastructure.

Improvements are capitalized. The cost 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.

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

<u>Description</u>	<u>Estimate Life</u>
Furniture, Fixtures, and Equipment	5 years
Leasehold Improvements	5 years

I. Net Assets

Net assets represent the difference between assets and liabilities. Invested in capital assets, net of related debt, 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. The School had no restricted net assets at June 30, 2005.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005 (CONTINUED)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Operating Revenues and Expenses

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

K. Estimates

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

L. Security Deposits

The School entered into a lease for the use of the building for the administration and instruction of the School. Based on the lease agreement, a security deposit was required to be paid at the signing of the agreement. This amount, totaling \$8,500, is held by the lessor. (See Note 10).

NOTE 3 - DEPOSITS

At June 30, 2005, the carrying amount of the School deposits was \$15,091 and the bank balance was \$32,724. The bank balance was covered by federal depository Insurance.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for fiscal year ended June 30, 2005, was as follows:

	Balance 06/30/04	Additions	Deductions	Balance 06/30/05
Capital Assets Being Depreciated:				
Furniture, Fixtures and Equipment	\$ 142,401	\$ -	\$ -	\$ 142,401
Leasehold Improvements	121,895	6,709	121,895	6,709
Total Capital Assets Being Depreciated	<u>264,296</u>	<u>6,709</u>	<u>121,895</u>	<u>149,110</u>
Less Accumulated Depreciation:				
Furniture, Fixtures and Equipment	111,740	14,401	-	126,141
Leasehold Improvements	119,895	2,343	121,895	343
Total Accumulated Depreciation	<u>231,635</u>	<u>16,744</u>	<u>121,895</u>	<u>126,484</u>
Capital Assets, Net of A/D	<u>\$ 32,661</u>	<u>\$ (10,035)</u>	<u>\$ -</u>	<u>\$ 22,626</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005 (CONTINUED)**

NOTE 5 - RISK MANAGEMENT

A. Insurance Coverage

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 2005, the School contracted with the Cincinnati Insurance Company.

Coverage is as follows:

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 property, but leases a facility located at 425 Jefferson Ave., Toledo, Ohio. (See Note 11)

B. Workers' Compensation

The School pays the State Worker's Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

C. Employees Medical, Dental, Vision, Life, and Disability Benefits

The School has contracted through the Sponsor to provide medical and dental insurance benefits to its full time employees. The School also provides vision benefits to most employees through Vision Service Plan.

NOTE 6 - NOTES PAYABLE

On January 17, 2001, the School entered into a revolving line of credit in the amount of \$150,000. The note bears a variable interest rate of one percentage point above the prime rate. The terms of the note include monthly principal and interest payments, which totaled \$9,206 for 2005. The note is collateralized by all assets of the School.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005 (CONTINUED)**

NOTE 6 – NOTES PAYABLE (CONTINUED)

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.

On October 29, 2004, the School entered into a short term installment note in the amount of \$14,900. The note bears an interest rate of prime plus one percent, 7.25 percent at June 30, 2005, and the terms of the note include monthly principal and interest payments of \$1,903. The note matured on June 29, 2005, and is collateralized by all assets of the School.

	Balance 06/30/04	Additions	Reductions	Balance 06/30/05
Short-Term Note Payable				
Installment Note (Sky Bank)	0	14,900	12,870	2,030
Demand Note (Sky Bank)	150,000	0	4,271	145,729
Total Short-Term Notes Payable	\$ 150,000	\$ 14,900	\$ 17,141	\$ 147,759

	Balance 06/30/04	Additions	Reductions	Balance 6/30/05	Due Within One Year
Long-Term Note Payable					
Installment Note (Sky Bank)	\$ 10,480	\$ 0	\$ 5,223	\$ 5,257	\$ 5,257

NOTE 7 - 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 43215-3476.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005 (CONTINUED)**

NOTE 7 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

A. School Employees Retirement System (Continued)

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salary and the School was required to contribute an actuarially determined rate. The employer rate for fiscal year 2005 was 14 percent of annual covered payroll; 10.57 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School's required contribution for pension obligations to SERS for the fiscal years ending June 30, 2005, 2004, and 2003 were \$8,724, \$6,837, and \$7,000 respectively; 100 percent has been contributed for fiscal years 2005, 2004, and 2003.

B. State Teachers Retirement Systems

The School contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost sharing multiple employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

Plan Options – New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of the DC Plan and the DB. In the Combined Plan, the member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005 (CONTINUED)**

NOTE 7 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

DB Plan Benefits (Continued)

purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. 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.

Combined Plan Benefits – The member allocates Member contributions, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio' public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offer by their employer.

Employees have 120 days from their employment date to select a retirement plan.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005 (CONTINUED)**

NOTE 7 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

Combined Plan Benefits (Continued)

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

Benefits are increased annually by 3% of the original base amount for Defined Benefit Plan participants.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependent. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio Law health care benefits are not guaranteed.

A Defined Benefit 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. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC, or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

For the fiscal year ended June 30, 2005, 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. The School's required contribution for pension obligations for the fiscal years ended June 30, 2005, 2004, and 2003 were \$35,769, \$55,402, and \$53,042, respectively; 100 percent has been contributed for fiscal years 2005, 2004, and 2003.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005 (CONTINUED)**

NOTE 7 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. State Teachers Retirement Systems (Continued)

STRS Ohio issues a stand-alone financial report. Copies of STRS Ohio 2005 Comprehensive Annual Financial Report will be available after January 1, 2006. Additional information or copies of STRS Ohio's 2005 Comprehensive Annual Financial Report can be requested by writing to STRS Ohio, 275 E. Board St., Columbus, Ohio 43215-3771, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

NOTE 8 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2005, the healthcare allocation is 3.43 percent. 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 2005, the minimum pay was established at \$27,400. 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.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2005 were \$178,221,113, and the target level was \$267.3 million. At June 30, 2005, the Retirement System's net assets available for payment of health care benefits of \$267.5 million. The number of recipients currently receiving health care benefits is approximately 58,000.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For fiscal year June 30, 2005, the Board allocated employer contributions equal to 3.43 percent of covered payroll and adding the surcharge due to the Health Care Reserve Fund. For the School, the amount to fund health care benefits, including surcharge, equaled \$6,192 for the fiscal year ended June 30, 2005.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005 (CONTINUED)**

NOTE 8 - POSTEMPLOYMENT BENEFITS (CONTINUED)

B. State Teachers Retirement System

STRS Ohio provides access to health care coverage to retirees who participated in the Defined Benefit or Combined Plans and their dependents. Coverage under the current plan includes hospitalization, physicians' fees prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code (R.C.) the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium.

The R.C. grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio Law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For fiscal year June 30, 2005, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$2,751 for the fiscal year ended June 30, 2005.

For the fiscal year ended June 30, 2005 net health care costs paid by STRS Ohio were \$254,780,000. There were 115,395 eligible benefit recipients.

NOTE 9 - STATE SCHOOL FUNDING DECISION

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

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005 (CONTINUED)**

NOTE 10 - OPERATING LEASES – LESSEE DISCLOSURE

The School entered into an operating lease agreement with Hillenbrand/Zaleski/Secor LLC for the use of the property located on 425 Jefferson Avenue. This agreement is, in substance, a rental agreement (operating leases), and is classified as operating lease rental payments in the financial statements. The monthly charge for rent is \$8,500, and rent expenses under the current lease agreement were \$68,000 for the fiscal year ended June 30, 2005. Per the amended lease agreement, a security deposit of \$8,500 was required to be paid and is held by the lessor.

Future minimum lease payments for all leases for the next five years are as follows:

June 30, 2006	\$ 102,000
2007	102,000
2008	102,000

NOTE 11 - FISCAL AGENT

The sponsorship agreement states the Treasurer of the Sponsor shall serve as the Chief Fiscal Officer of the School. As part of this agreement, the School shall compensate the Sponsor two percent (2%) of the per pupil allotment paid to the School from the State of Ohio. A total contract payment of \$11,661 was paid during the year, and a liability in the amount of \$1,329 was accrued as a liability for the year ended June 30, 2005.

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 state funds;
- 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005 (CONTINUED)**

NOTE 12 - PURCHASED SERVICES

For the period July 1, 2004 through June 30, 2005, purchased service expenses were payments for services rendered by various vendors, and are as follows:

Professional and Technical Services	\$ 24,737
Property Services	131,667
Travel Mileage/Meeting Expenses	1,198
Communications	7,522
Contracted Craft or Trade Services	479
Tuitions	3,934
Total Purchased Services	<u>\$ 169,537</u>

NOTE 13 - CONTINGENCIES

A. Grants

The School received significant 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 School. However, in the opinion of management, any such disallowed claims will not have a material effect on the overall financial position of the School at June 30, 2005.

B. Pending Litigation

A suit was filed in Franklin County common Pleas Court on May 14, 2001 alleging Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. On April 21, 2003 the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard on November 18th, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are a part of the state public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. No oral argument date has been set. The effect of this suit, if any, on the School is not presently determinable.

The School has included \$79,250 in the current financial statements as a payable to Gomez Enterprises, a former landlord. This amount is based on a court judgment that the money is due the landlord for past rent and real estate taxes. The School has appealed the ruling; however, the results of the appeal are unknown as this time.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005 (CONTINUED)**

NOTE 13 - CONTINGENCIES (CONTINUED)

C. School Funding

The Ohio Department of Education reviews 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. ODE has not yet conducted a review of the School's 2005 student enrollment data and FTE calculations. For the year ended 2005, the School does not anticipate revenue adjustments based on the results of any such review.

NOTE 14 - RELATED – PARTY TRANSACTION

The spouse of the director of the Performing Arts School of Metropolitan Toledo is an owner of a construction company that the School utilizes for construction services.

Construction fees of \$7,109 were paid to that company for the year ended June 30, 2005.

NOTE 15 - MANAGEMENT'S PLANS REGARDING ACCUMULATED DEFICIT

The School has accumulated a net assets deficit of \$356,097, with a slight decrease in net assets of \$970 for the fiscal year ended June 30, 2005. The School is under financial distress as it is unable to pay vendors, payroll, and taxes as these amounts come due. The School has also experienced a continual drop in student enrollment.

Management has developed a plan to encourage student enrollment and community awareness. This plan includes advertising, distribution of promotional materials, and the recruitment of board members that have marketing experience.

Because it is unclear whether the School will be successful in implementing their plans to offset the accumulated deficit, there is uncertainty about the School's ability to continue as a going concern.

The financial statements do not include any adjustments that might be necessary if the School is unable to continue as a going concern.

NOTE 16 - SUBSEQUENT EVENTS

During July 2006, the School entered into a long-term installment note with Sky Bank in the amount of \$15,000, due October 26, 2006.

During October 2006, the School moved the administrative offices and classrooms to 2740 W. Central Avenue, Toledo, OH 43606.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Performing Arts School of Metropolitan Toledo
Lucas County
2740 W. Central Avenue
Toledo, OH 43606

To the Governing Board:

We have audited the financial statements of Performing Arts School of Metropolitan Toledo, Lucas County, Ohio, (the School) as of and for the year ended June 30, 2005, and have issued our report thereon dated October 24, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. 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 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

www.lublinsussman.com

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Members:
- 27 - American Institute of Certified Public Accountants
AICPA-Private Companies Practice Section
Ohio Society of Certified Public Accountants

We noted certain matters that we reported to management of the School in a separate letter dated October 24, 2006.

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

Lublin Sussman Group LLP

October 24, 2006
Toledo, Ohio

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

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2004-001	Material Weakness – Capital asset controls did not include developing and implementing procedures to record capital asset additions and deletions.	Yes	The School has developed and implemented procedures to record capital asset additions and deletions.
2004-002	Reportable Condition – Failure to develop and implement a monitoring control system.	Yes	The Director monitors operational and fiscal matters daily and the Board monitors them monthly.



Mary Taylor, CPA
Auditor of State

PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO

LUCAS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 28, 2007**