PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO
LUCAS COUNTY

REGULAR AUDIT

FOR THE PERIOD OF JULY 1, 2006 THROUGH NOVEMBER 30, 2007

Mary Taylor, CPA
Auditor of State

PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO
LUCAS COUNTY

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INDEPENDENT ACCOUNTANTS' REPORT

Performing Arts School of Metropolitan Toledo
Lucas County
c/o The Ohio Council of Community Schools
3131 Executive Parkway, Suite 306
Toledo, Ohio 43606-1327

To the Sponsor:

We were engaged to audit the accompanying financial statements of the Performing Arts School of Metropolitan Toledo, Lucas County, Ohio (the School), for the period July 1, 2006, through November 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the School's management.

Management has not provided the Auditor of State certain written representations, including but not limited to, management's responsibility for preparing the financial statements in conformity with the School's accounting basis; the availability of original financial records and related data, the completeness and availability of all minutes of the legislative or other bodies and committee meetings; management's responsibility for the School's compliance with laws and regulations; the identification and disclosure to the Auditor of State of all laws, regulations, and provisions of contracts and grant agreements directly and materially affecting the determination of financial statement amounts and; the presence or absence of fraud involving management or employees with significant roles in internal control; compliance with laws, regulations, and provisions of contracts and grant agreements, including budget laws, compliance with any debt covenants; the identification of all federal assistance programs, and compliance with federal grant requirements.

Ohio Administrative Code § 117-2-03 (B) requires the School to prepare its annual financial report in accordance with generally accepted accounting principles. As discussed in Note 2, the School chose to prepare its financial statements on a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements omit certain assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

Management did not make available the minute records of the School. The School's Fiscal Agent, ACE Charter School Services failed to maintain correct and complete books and records of account, including but not limited to a general ledger, receipts ledger, and an appropriations ledger.

As discussed in Note 13, we were unable to perform audit procedures to verify the accuracy of School disbursements totaling $119,083.

The Auditor of State has billed the School for audit services provided for fiscal year 2006 and a special audit for the period July 1, 2006, through February 9, 2007. As of the date of this report, the School has outstanding balances of $6,910 and $11,639 respectively. The Auditor of State has performed audit services for the period from July 1, 2006 through November 30, 2007, totaling $8,870. AICPA Code of Professional Conduct, Section 100, ET Section 191 considers unpaid audit fees related to periods more than one year prior to the current period under audit to impair the independence of the Auditor of State.

The School's fiscal agent, ACE Charter School Services, is a service organization independent of the School. The service organization did not provide us with information we requested regarding the design or proper operation of it's internal controls. We were unable to satisfy ourselves as to the proper processing of accounting transactions.

Since the School did not provide the evidence described in the preceding six paragraphs, the scope of our auditing procedures was not sufficient to enable us to express, and we do not express an opinion on the financial activity of the School for the period from July 1, 2006, through November 30, 2007.

As discussed in Note 1 to the financial statements, the Sponsor, Ohio Council of Community Schools, notified the School of the non-renewal of the sponsor contract. The sponsor officially closed the school at the end of the fiscal 2007 school year.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2008, 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.

Generally accepted accounting principles also requires the School to include Management's Discussion and Analysis for the period ended November 30, 2007. The School has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 30, 2008

PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO
LUCAS COUNTY

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND CASH BALANCE
FOR THE PERIOD JULY 1, 2006 THROUGH NOVEMBER 30, 2007

Operating Cash Receipts	
Foundation Payments	$550,686
Other Operating Revenues	61,226
Total Operating Cash Receipts	611,912
Operating Cash Disbursements	
Salaries	353,321
Fringe Benefits	24,396
Purchased Services	126,583
Supplies and Materials	5,041
Other Operating Expenses	65,699
Total Operating Cash Disbursements	575,040
Operating Receipts Over Operating Disbursements	36,872
Non-Operating Cash Receipts	
Operating Grants - Federal	5,905
Operating Grants - State	2,000
Earnings on Investments	6
Total Non-Operating Cash Receipts	7,911
Non-Operating Cash Disbursements	
Principal Payments	15,824
Interest Payments	10,832
Fiscal Charges and Fees	5,207
Total Non-Operating Cash Disbursements	31,863
Net Receipts Over Disbursements	12,920
Cash Balance at Beginning of Period	4,419
Cash Balance at End of Period	**$17,339**

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2006 THROUGH NOVEMBER 30, 2007

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 Ohio Council of Community Schools (the Sponsor) through June 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. However, as noted below, the School's Sponsor closed the school effective June 30, 2007. During the period ended November 30, 2007, the School contracted with ACE Charter School Services for fiscal services on July 25, 2006, for a period of one year.

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. In January 2007, the Governing Board of the School was dissolved by the Ohio Council of Community Schools.

Closing of the School

In July of 2007, the Sponsor, Ohio Council of Community Schools, notified the School of the non-renewal of the sponsor contract. The sponsor officially closed the school on June 30, 2007. The financial statements presented in this report are presented for the period July 1, 2006, through November 30, 2007.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

Although required by Ohio Administrative Code § 117-2-03 (B) to prepare its annual financial report in accordance with generally accepted accounting principles, the School chose to prepare its financial statements on a basis of accounting that is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

B. Budgetary Process

The contract between the School and its Sponsor prescribes an annual budget requirement in addition to preparing a 5-year forecast, which is to be updated on an annual basis. Chapter 5705.391(A) of the Ohio Revised Code also requires the School to prepare a 5-year forecast, update it annually, and submit it to the Superintendent of Public Instruction at the Ohio Department of Education.

C. Property Plant and Equipment

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

D. Cash

All monies received by the School are accounted for by the School's fiscal agent, ACE Charter School Services. 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.

E. Intergovernmental Revenues

The School participated in the State Foundation Program, Special Education Program, and Federal CCIP Program. Revenues received from State Foundation Program, Special Education Program and other State programs are recognized as operating revenues in the accounting period they are received.

NOTE 3 - DEPOSITS

At November 30, 2007, the School had a cash balance of $17,339. The bank balance was covered by Federal Depository Insurance Corporation (FDIC).

NOTE 4 - 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 period July 1, 2006 through June 30, 2007, the School contracted with the Brooks Insurance Agency for the following insurance coverages:

Commercial Property ($500 deductible)	$ 175,000
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

NOTE 4 - RISK MANAGEMENT – (Continued)

Settled claims have not exceeded this commercial coverage in any of the past three years. The School owns no real estate, but leased a facility located at 425 Jefferson Avenue, and 2740 West Central Avenue, both in Toledo, Ohio. (See Note 11)

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.

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 5 - DEBT

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 $10,268 for the period ended November 30, 2007. 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, 2001. 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 terms of the note include monthly principal and interest payments, which totaled $155 for the period ended November 30, 2007. This note was paid in full during the period ended November 30, 2007.

On July 26, 2005, the School entered into an installment note in the amount of $15,000. The note bears a variable interest rate of one percentage point above the prime. The terms of the note include monthly interest payments, which totaled $409 for the period ended November 30, 2007. This note was paid in full during the period ended November 30, 2007.

	Balance 07/01/06	Additions	Deletions	Balance 11/30/07
Demand Note (Sky Bank)	$145,344		(4,141)	$141,203
Installment Note (Sky Bank)	3,263		(3,263)	
Installment Note (Sky Bank)	8420		(8,420)	
Total Debt	$ 157,027	$ -	$ (15,824)	$ 141,203

NOTE 6 - 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 43215-3476.

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 the period ended November 30, 2007, 10.68 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 period ended November 30, 2007, and fiscal years ended 2006 and 2005 were $9,665, $10,580, $8,724 respectively; 100 percent has been contributed for the period ended November 30, 2007, and fiscal years 2006 and 2005.

B. State Teachers Retirement System

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, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strs.org.

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.

NOTE 6 - DEFINED BENEFIT PENSION PLANS – (Continued)

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 period ended November 30, 2007, 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 the period ended November 30, 2007, the portion used to fund pension obligations was also 13 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 for the period ended November 30, 2007, and for the fiscal years ended June 30, 2006 and 2005, were $37,502, $35,180, and $35,769, respectively; 100 percent has been contributed for the period ended November 30, 2007, and fiscal years 2006 and 2005.

NOTE 7 – POSTEMPLOYMENT BENEFITS

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS Ohio), and to retired non-certificated 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 funded on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS Ohio. All 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 period ended November 30, 2007, the STRS Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School, this amount equaled $2,885 for the period ended November 30, 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) the balance in the Fund was $3.5 billion. For period ended November 30, 2006, net health care costs paid by STRS were $282,743,000 and STRS had 119,184 eligible benefit recipients.

NOTE 7 – POSTEMPLOYMENT BENEFITS – (Continued)

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. 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.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the period ended November 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For the period ended November 30, 2007, the minimum pay was established at $35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School, the amount contributed to fund health care benefits, including the surcharge, for the period ended November 30, 2007, equaled $3,005.

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 projected claims less premium contributions for the next year. Expenses for health care at June 30, 2006, (the latest information available), were $158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of $295.6 million. SERS has 59,492 participants eligible to receive benefits.

NOTE 8 - 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 for the period ended November 30, 2007.

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 received additional funds in the amount of $15,448 in November 2007.

NOTE 8 – CONTINGENCIES – (Continued)

C. Litigation

A lawsuit entitled ***Beverly Blount-Hill, et al. v. State of Ohio, et al., Case #: 3:04CV197*** was filed in the U.S. District Court, Southern District of Ohio, Western Division in October 2004. The suit alleges that the funding provisions of the Ohio Community Schools Act, O.R.C. Section 3314, violate both the Ohio and Federal constitutions. If the funding scheme is determined to be unconstitutional, it could have financial ramifications for all community/charter schools. The case is still currently pending, and the effect of this suit, if any, on the School cannot presently be determined.

NOTE 9 - FISCAL AGENT

The School entered into a service agreement with ACE Charter School Services on August 9, 2006, to serve as the Chief Fiscal Officer of the School. As part of this agreement, the School shall compensate ACE a monthly fee in the amount of $1,283 for Financial Services and $1,200 per month for Treasurer Services. A total contract payment of $11,128 was paid during the period.

NOTE 10 - PURCHASED SERVICES

For the period ended November 30, 2007, purchased service expenses were payments for services rendered by various vendors, as follows:

Professional and Technical Services	$ 98,067
Property Services	19,000
Utilities	9,516
Total Purchased Services	$ 126,583

NOTE 11 - OPERATING LEASE

The School entered into an operating lease agreement with Hillenbrand/Zaleski/Secor, LLC for the School's facility at 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. According to the lease agreement the School owed $45,002 to the property owner during the Period. The School paid $17,500 leaving an obligation of $27,502 as of the end of the period.

On October 27, 2006, the School terminated its lease with Hillenbrand/Zaleski/Secor and contracted with Lake Erie Villa, LLC for the School's facility at 2740 West Central Avenue. The term of the lease was until June 30, 2007. According to the lease agreement the School owed $28,742 to the property owner during the Period. The School paid $1,500 leaving an obligation of $27,242 as of the end of the period.

NOTE 12 – PUBLIC AUCTION OF SCHOOL ASSETS

On November 17, 2007, an auction of the School's assets was conducted by Wilson Auction and Realty Company. The auction netted proceeds in the amount of $4,536. The proceeds were sent to Sky/Huntington Bank on December 4, 2007, to pay on loan #6000220143 that was secured by the assets of the school.

As of March 7, 2008 (latest available information from the bank), the School's outstanding principal balance on the loan is $136,666. Interest is due in the amount of $15,461 and late fees are also due in the amount of $1,100 for a total amount outstanding at March 7, 2008, of $153,227.

NOTE 13 - SPECIAL AUDIT AND RELATED ITEMS

On October 18, 2007, a special audit was released by the Auditor of State of Ohio for the School which covered the period July 1, 2006, through February 9, 2007. This report revealed a total of $119,083 in findings for recovery. The $119,083 comprised of $42,057 in unsupported payments to Kari and William DiCianni, $48,250 in unsupported payments to students for services, $20,611 for withholding from employee paychecks that were not submitted to the required agencies, $3,187 for overdraft and insufficient funds fees, $3,618 for cash received and not deposited, and $1,360 for fundraising money that was collected for a fundraiser but not deposited.

On October 26, 2007, William Dicianni was indicted in the Lucas County Court of Common Pleas, case number 200703222, on twenty-seven counts including forgery, passing bad checks, grand theft, and money laundering.

On February 12, 2008, William Dicianni plead to four of the twenty-seven counts, Mr. Dicianni plead guilty to one count each of forgery, passing bad checks, grand theft, and money laundering.

On February 27, 2008, William Dicianni was sentenced to five years and four months in prison for the four counts he plead guilty to on February 12, 2008.

NOTE 14 – OUTSTANDING OBLIGATIONS

As of the date of this report, the School has outstanding obligations, not including debt obligations as noted in note 12, to various vendors for materials and supplies, purchased services, and other payroll related obligations in the amount of $271,529.

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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
c/o The Ohio Council of Community Schools
3131 Executive Parkway, Suite 306
Toledo, Ohio 43606-1327

To the Sponsor:

We were engaged to audit the financial statements of the Performing Arts School of Metropolitan Toledo, Lucas County, Ohio, (the School) for the period July 1, 2006, through November 30, 2007, and have issued our report thereon dated April 30, 2008, wherein, we noted the School uses a comprehensive basis of accounting other than generally accepted accounting principles and the sponsor officially closed the School at the end of the fiscal 2007 school year. We also noted management failed to provide the Auditor of State certain representations as required by auditing standards generally accepted in the United States of America, the School has unpaid audit fees, management did not provide School minute records, the School did not maintain records of account such as general ledger, receipts ledger, and an appropriations ledger, we were unable to satisfy ourselves as to the proper processing of accounting transactions, and we were unable to verify the accuracy of certain school disbursements.

Internal Control Over Financial Reporting

In planning and performing our engagement, we considered the School's internal control over financial reporting as a basis for designing our procedures on the financial statements, but not to opine on the effectiveness of the School's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

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A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the School's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2007-003, 2007-004, and 2007-005.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the School's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, we believe the significant deficiencies described above are also material weakness.

Compliance and Other Matters

As part of our engagement, we tested the School's 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 engagement and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items, 2007-001, 2007-002, and 2007-003.

We intend this report solely for the information and use of the sponsor. It is not intended for anyone other than this specified party.

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 30, 2008

SCHEDULE OF FINDINGS
FOR THE PERIOD JULY 1, 2006 THROUGH NOVEMBER 30, 2007

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

FINDING NUMBER 2007-001

Noncompliance Citation

Ohio Revised Code § 117.38 provides that each public office shall file a financial report for each fiscal year. The auditor of state may prescribe forms by rule or may issue guidelines, or both, for such reports. If the auditor of state has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code § 117-2-03 further clarifies the requirements of Ohio Revised Code § 117.38.

Ohio Administrative Code § 117-2-03(B) requires the School to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, the School prepared its financial statements in a cash format which is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Revised Code § 117.38 the School may be fined and subject to various other administrative remedies for its failure to file the required financial report.

FINDING NUMBER 2007-002

Noncompliance Citation

Ohio Revised Code Section 3314.03(A)(15) provides that the School is required to prepare a financial plan detailing an estimated school budget for each year of the period of the contract and specify the total estimated per pupil expenditure amount for each such year. The plan shall specify the yearly base formula amount that will be used for purposes of funding calculations under section 3314.08 of the Ohio Revised Code. This base formula amount for any year shall not exceed the formula amount defined under section 3317.02 of the Revised Code. The plan may also specify for any year a percentage figure to be used for reducing the per pupil amount of the subsidy calculated pursuant to section 3317.029 of the Revised Code the school is to receive that year under 3314.08 of the Revised Code.

The School did not prepare the financial plan as required, consequently, the Board was not able to approve an annual spending plan or approve the assumptions of the financial management in dealing with the finances of the School.

FINDING NUMBER 2007-003

Noncompliance Citation/Material Weakness

Ohio Revised Code § 3314.03 and Ohio Revised Code §§ 121.22, 149.43

Ohio Revised Code § 3314.03(A)(11)(d) requires a community school to comply with §§ 121.22 and 149.43 of the Ohio Revised Code.

Ohio Revised Code § 121.22(C) states in part that the minutes of a regular or special meeting of any public body shall be promptly prepared, filed, and maintained and shall be open to public inspection. The minutes need only reflect the general subject matter of discussions in executive sessions authorized under division (G) or (J) of this section.

Additionally, Ohio Revised Code § 149.43(B)(1) states in part that subject to division (B)(4) of this section, all public records shall be promptly prepared and made available for inspection to any person at all reasonable times during regular business hours.

Management did not make available the minute records of the Performing Arts School of Metropolitan Toledo. The School's Fiscal Agent, ACE Charter School Services failed to maintain correct and complete books and records of account, including but not limited to a general ledger, receipts ledger, and an appropriations ledger.

FINDING NUMBER 2007-004

Material Weakness

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.

Management did not have controls to monitor the financial and operational activities of the School, which led to the School's closure by the sponsor, findings for recovery totaling $119,083 issued by the Auditor of State during a special audit dated October 18, 2007, and the conviction of William Dicianni for forgery, passing bad checks, grand theft, and money laundering.

FINDING NUMBER 2007-004
(Continued)

Developing and Implementing an Effective Monitoring Control System (Continued)

Monitoring controls should assist management in making informed decisions on operational and fiscal matters for the School, we recommend that if the school reopens, the Governing Board:

- Perform regular review and approval of bank reconciliations, as submitted by the Fiscal Agent;
- Review of key performance indicators;
- Review of revenues/expenditures with independently accumulated information (budgets, past performance, etc.), as submitted by the Fiscal Agent;
- Ensure an adequate segregation of duties exists.

FINDING NUMBER 2007-005

Material Weakness

Service Organization

The School delegated, through a contractual agreement, its accounting function to ACE Charter School Services, a third party administrator. The School has not established procedures to determine whether this service organization has sufficient controls in place and operating effectively to reduce the risk that accounting transactions have been completely and accurately processed in accordance with their mutual contract. We recommend the School help assure the completeness and accuracy of accounting transactions processed by its third-party administrator. Statement on Auditing Standards (SAS) No. 70, as amended, prescribes standards for reporting on service organizations. An unqualified Type Two *Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness* in accordance with SAS No. 70 should provide the School with reasonable assurance that accounting transactions conform to the contract.

We recommend the School require a Type Two SAS 70 report in its contract with the third-party administrator. The School should review the SAS 70 report timely. The report should follow American Institute of Certified Public Accountants standards and be performed by a firm registered and in good standing with the Accountancy Board of the respective state. If the third-party administrator refuses to furnish the School with a Type Two SAS 70 report, we recommend the government contract with a third-party administrator that will provide such a report.

Officials' Response:
We did not receive a response from Officials to these findings.

PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO
LUCAS COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE PERIOD JULY 1, 2006 THROUGH NOVEMBER 30, 2007

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2006-001	Noncompliance Citation for not filing financial report and not preparing financial statements accordance with accounting principles generally accepted in the United States of America	No	Not Corrected, re-issued as Finding 2007-001

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
MAY 13, 2008

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