



**JIM PETRO**  
**AUDITOR OF STATE**  

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**STATE OF OHIO**



TOLEDO SCHOOL FOR THE ARTS

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## REPORT OF INDEPENDENT ACCOUNTANTS

Toledo School for the Arts  
Lucas County  
425 Jefferson Ave  
Toledo, Ohio 43604

To the Governing Board:

We have audited the Balance Sheet of Toledo School for the Arts, Lucas County, (the School) as of June 30, 2001, and the related Statement of Revenues, Expenses, and Changes in Accumulated Deficit, and the Statement of Cash Flows for the year ended June 30, 2001. 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 the School as of June 30, 2001, and the results of operations and its cash flows for the year then ended in conformity with auditing standards generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the School will continue as a going concern. As shown in the financial statements, the School has incurred an operating loss in the amount of \$442,587 for the year ended June 30, 2001, has a working capital deficiency of \$486,479 as of June 30, 2001, an accumulated deficit of \$335,169, and has been unable to pay its obligations when due. Accordingly, there is substantial doubt about the School's ability to continue as a going concern. Management's plans in regards to these matters are discussed in Note 18. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The Auditor of State has billed the School for services rendered for the fiscal year 2001 and 2000 audits in the amount of \$8,833. As of the date of this report, the School and its fiscal agent, Lucas County Educational Service Center, have yet to pay \$8,833. This outstanding amount has been referred to the Department of Education for collection from future foundation revenues.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 7, 2002, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, sweeping initial "J" and a long horizontal stroke extending to the right.

**Jim Petro**  
Auditor of State

May 7, 2002

TOLEDO SCHOOL FOR THE ARTS

BALANCE SHEET  
AS OF JUNE 30, 2001

**Assets**

Current Assets

Cash and Cash Equivalents with Fiscal Agent	\$36,778
Accounts Receivable	1,707
Intergovernmental Receivable	23,692
Prepaid Items	533
	<hr/>
Total Current Assets	62,710

Non-Current Assets

Security Deposit	13,903
Fixed Assets (Net of Accumulated Depreciation)	291,702
	<hr/>
Total Non-Current Assets	305,605

Total Assets	<u><u>\$368,315</u></u>
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**Liabilities and Equity**

Liabilities

Accounts Payable	\$181,630
Accrued Wages Payable	57,123
Compensated Absences Payable	2,391
Intergovernmental Payable	82,333
Due to Students	1,068
Accrued Interest Payable	4,497
Notes Payable	212,000
Lease Payable	8,147
	<hr/>
Total Current Liabilities	549,189

Long-Term Liabilities

Intergovernmental Payable	46,970
Capital Lease Payable	19,401
	<hr/>

Total Liabilities	615,560
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Equity (Deficit)

Contributed Capital	87,924
Accumulated Deficit	(335,169)
	<hr/>

Total Equity (Deficit)	<u>(247,245)</u>
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Total Liabilities and Equity (Deficit)	<u><u>\$368,315</u></u>
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*The notes to the financial statements are an integral part of this statement.*

**TOLEDO SCHOOL FOR THE ARTS**  
**STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN ACCUMULATED DEFICIT**  
**FOR THE YEAR ENDED JUNE 30, 2001**

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**Operating Revenues**

Foundation Payments	\$743,907
Disadvantaged Pupil Impact Aid	17,822
Food Services	2,633
Classroom Materials and Fees	15,778
Other Operating Revenues	<u>4,018</u>
 Total Operating Revenues	 <u>784,158</u>

**Operating Expenses**

Salaries	615,370
Fringe Benefits	143,148
Purchased Services	286,109
Materials and Supplies	85,897
Depreciation	93,235
Other Operating Expenses	<u>2,986</u>
 Total Operating Expenses	 <u>1,226,745</u>
 Operating Loss	 <u>(442,587)</u>

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

Grants - Federal	30,425
Grants - State	33,917
Interest Earnings	1,402
Contributions and Donations	69,234
Interest Expense and Fiscal Charges	<u>(21,329)</u>
 Total Non-Operating Revenues and (Expenses)	 <u>113,649</u>
 Net Loss	 (328,938)
 Accumulated Deficit at Beginning of Year	 <u>(6,231)</u>
 Accumulated Deficit at End of Year	 <u><u>(\$335,169)</u></u>

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



**TOLEDO SCHOOL FOR THE ARTS**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2001**

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

**Cash Flows from Operating Activities:**

Cash Received from State of Ohio	\$863,422
Cash Received from Food Services	2,590
Cash Received from Classroom Materials and Fees	14,973
Cash Received from Other Source	4,326
Cash Payments to Suppliers for Goods and Services	(237,141)
Cash Payments to Employees for Services	(600,119)
Cash Payments for Employee Benefits	(121,660)
Cash Payments for Other Operating Uses	<u>(2,466)</u>
Net Cash Used by Operating Activities	<u>(76,075)</u>

**Cash Flows from Noncapital Financing Activities:**

Grants Received - Federal	6,733
Grants Received - State	33,917
Contributions and Donations	68,674
Proceeds of Notes	67,000
Principal Payments	(15,000)
Interest Payments	<u>(20,123)</u>
Net Cash Provided by Noncapital Financing Activities	<u>141,201</u>

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

Principal Payments - Capital Lease	(8,328)
Interest Payments - Capital Lease	(129)
Payments for Capital Acquisitions	<u>(60,008)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(68,465)</u>

**Cash Flows from Investing Activities:**

Interest on Investments	<u>1,402</u>
Net Cash Provided by Investing Activities	<u>1,402</u>
Net Decrease in Cash and Cash Equivalents	(1,937)
Cash and Cash Equivalents at the Beginning of the Year	<u>38,715</u>
Cash and Cash Equivalents at the End of the Year	<u><u>\$36,778</u></u>

(Continued)

**TOLEDO SCHOOL FOR THE ARTS**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2001**  
**(Continued)**

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

Operating Loss (\$442,587)

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

Depreciation	93,235
Changes in Assets and Liabilities:	
Decrease in Prepaid Items	1,064
(Increase) in Accounts Receivable	(848)
Increase in Accounts Payable	138,586
Increase in Accrued Wages Payable	15,815
Decrease in Compensated Absences Payable	(2,191)
Increase in Due to Students	270
Increase in Intergovernmental Payable	<u>120,581</u>
Total Adjustments	<u>366,512</u>
Net Cash Used by Operating Activities	<u><u>(\$76,075)</u></u>

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

**TOLEDO SCHOOL FOR THE ARTS**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001**

**1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY**

Toledo School for the Arts (the School) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the School's tax-exempt status. The School's objective is to provide students the opportunity to achieve personal and academic success through arts-based learning. The School's programs are currently available to students in grades 7 - 10, but will be adding 11<sup>th</sup> grade in the 2002 school year and 12<sup>th</sup> grade in the 2003 school year. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The School may acquire facilities as needed and contract for any services necessary for the operation of the school.

The School was approved for operation under a contract with the Toledo City School District (the Sponsor) for a period of five years commencing June 22, 1998, with operations starting in July of 1999. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The School entered into a separate agreement with the Treasurer of Lucas County Educational Service Center to serve as the Chief Financial Officer of the School (see note 13).

The School operates under the direction of a twenty 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 6 non-certified personnel and 23 certificated teaching personnel who provide services to 198 students.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the School's accounting policies are described below.

**A. Basis of Presentation**

*Enterprise Accounting* is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

**TOLEDO SCHOOL FOR THE ARTS**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2001**

**(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (continued)**

**B. Measurement Focus and Basis of Accounting (continued)**

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Equity (i.e., net total assets) is segregated into contributed capital and accumulated deficit components. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The accrual basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

**C. Budgetary Process**

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor does prescribe an annual budget requirement in addition to preparing a 5-year forecast which is to be updated on an annual basis.

**D. Cash and Cash Equivalents**

All monies received by the School are accounted for by the School's fiscal agent, the Lucas County Educational Service Center. All cash received by the fiscal agent is maintained in separate bank accounts in the School's name. Monies for the School are maintained in these accounts or temporarily used to purchase short-term investments.

For the purposes of the statement of cash flows and for presentation on the balance sheet, investments with original maturities of three months or less at the time they are purchased by the School are considered to be cash equivalents.

**E. Fixed Assets and Depreciation**

Fixed assets are capitalized at cost and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value as of the dates received. The School does not possess any infrastructure.

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Depreciation of furniture, equipment, and leasehold improvements is computed using the straight-line method over an estimated useful life of five years. Improvements to fixed assets are depreciated over the remaining useful lives of the related fixed assets.

**TOLEDO SCHOOL FOR THE ARTS**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**F. Intergovernmental Revenues (continued)**

The School currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid (DPIA) Program, and the State Special Education Program. Revenues from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

Amounts awarded under the above named programs for the 2001 school year totaled \$927,764.

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2001, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expense in the year in which services are consumed.

**H. Estimates**

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

**I. Contributed Capital**

Contributed capital represents equity obtained from private sources provided to the School that are not subject to repayment. These assets are recorded at their fair market value on the date contributed. Depreciation on those assets acquired with contributed resources is expensed. There were no additions to contributed capital for fiscal year 2001.

**J. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School will compensate the employees for the benefits through paid time off or some other means. The School records a liability for accumulated unused vacation time when earned for all employees.

**K. Security Deposit**

The School entered into a lease for the use of a building for the operation of the School. Based on the lease agreement, a security deposit was required to be paid at the signing of the agreement. This amount is held by the lessor.

**TOLEDO SCHOOL FOR THE ARTS**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**3. ACCOUNTABILITY AND COMPLIANCE**

**Accumulated Deficit and Operating Loss**

The School is analyzing operations and admissions procedures to determine appropriate steps to alleviate the deficit and operating losses (See Note 18).

**4. DEPOSITS AND INVESTMENTS**

At June 30, 2001, the carrying amount of the School's deposits was \$36,788 and the bank balance was \$43,561. The bank balance was covered by federal depository insurance.

**5. RECEIVABLES**

Receivables at June 30, 2001, consisted of accounts receivable and intergovernmental (e.g., grants) receivables. Accounts receivable consist of miscellaneous types of receipts and are collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

**6. FIXED ASSETS**

A summary of the School's fixed assets, at June 30, 2001, follows:

Leasehold Improvements	\$310,185
Furniture and Equipment	155,985
Less: Accumulated Depreciation	<u>(174,468)</u>
Net Fixed Assets	<u><u>\$291,702</u></u>

**7. RISK MANAGEMENT**

**A. Property and Liability**

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2001, the School contracted with Great American Insurance Company for property and general liability insurance.

Professional liability is protected by Great American Insurance Company, with a \$1,000,000 single occurrence limit and a \$2,000,000 aggregate limit, with no deductible. An additional \$1,000,000 liability umbrella policy was purchased from Agricultural Insurance Company.

**B. Workers' Compensation**

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

**TOLEDO SCHOOL FOR THE ARTS**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2001**

**(Continued)**

**8. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The School contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is established by Chapter 3309 of the Ohio Revised Code.

SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the School is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 4.2 percent was the portion to fund pension obligations for the fiscal year 2001. For fiscal year 2000, 5.5 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 ended June 30, 2001 and 2000 were \$3,545 and \$1,982, respectively; 100 percent has been contributed for fiscal years 2001 and 2000.

**B. State Teachers Retirement System**

The School contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and the School is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations for the year 2001. For fiscal year 2000, 6 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School's required contribution for pension obligations to STRS for the fiscal years ended June 30, 2001 and 2000 were \$50,944 and \$22,875, respectively; 72 percent has been contributed for fiscal year 2001 and 100 percent for fiscal year 2000. The unpaid contribution for fiscal year 2001, in the amount of \$14,118, is recorded as a liability.

**TOLEDO SCHOOL FOR THE ARTS**

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**  
**(Continued)**

**9. POSTEMPLOYMENT BENEFITS**

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2001, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$24,131 during the year.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3,419 million at June 30, 2000 (the latest information available). For the fiscal year ended June 30, 2000, net health care costs paid by STRS were \$283,137,000, and STRS had 99,011 eligible benefit recipients.

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

For the fiscal year ended June 30, 2001, employer contributions to fund health care benefits were 9.8 percent of covered payroll, an increase of 1.3 percent from fiscal year 2000. 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 2001, the minimum pay has been established at \$12,400. For the School, the amount to fund health care benefits, including surcharge, equaled \$9,225 for fiscal year 2001.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2000 (the latest information available), were \$140,696,340, and the target level was \$211 million. At June 30, 2000, SERS had net assets available for payment of health care benefits of \$252.3 million. SERS has approximately 50,000 participants currently receiving health care benefits.



**TOLEDO SCHOOL FOR THE ARTS**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2001**

**(Continued)**

**10. OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation is derived from policies and procedures approved by the Governing Board. One member of the management team had vacation leave earned in the year that had not been used at year end. Unused vacation leave is shown as a current liability.

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

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

**11. STATE SCHOOL FUNDING DECISION**

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of May 7, 2002, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such reconsideration.

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

**TOLEDO SCHOOL FOR THE ARTS**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2001**

**(Continued)**

**12. CONTINGENCIES**

**A. Grants**

The School received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2001.

**B. Ohio Community School Program**

A suit was filed in Franklin County Common Pleas Court, on May 14, 2001, alleging that Ohio's Community [i.e. Charter] Schools Program violates the state's Constitution and state laws. The effect of this suit, if any, on the School is not presently determinable.

**C. School Funding**

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The results of this review for the fiscal year ended June 30, 2001 resulted in a reduction of \$101,693 of state foundation funding, which is included in intergovernmental payables on the face of the financial statements. The Ohio Department of Education set up a repayment schedule for the School where \$54,723 and \$46,970, respectively, will be deducted from the School's 2002 and 2003 monthly foundation payments.

**13. FISCAL AGENT**

The School entered into a service agreement with the Treasurer of the Lucas County Educational Service Center to serve as the Chief Financial Officer of the School. As part of this agreement, the School shall compensate the Lucas County Educational Service Center two percent (2%) of the per pupil allotments paid to the School from the State of Ohio (See Note 14).

**TOLEDO SCHOOL FOR THE ARTS**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**14. PURCHASED SERVICE EXPENSES**

For the year ended June 30, 2001, purchased service expenses were payments for services rendered by various vendors, as follows:

***PURCHASED SERVICES***

Property Services	\$207,587
Professional & Technical Services	27,564
Communications	31,168
Meeting Expenses	241
Utilities	187
Contracted Craft or Trade Services	5,325
Transportation Services	1,830
LCESC Accounting Fees (See Note 13)	<u>12,207</u>
Total Purchased Services	<u><u>\$286,109</u></u>

**15. DEBT**

Debt outstanding at June 30, 2001, was as follows:

	Principal	Interest Rate
General Note (Sky Bank)	\$200,000	variable
Lucas County Educational Service Center Note #1	4,500	4%
Lucas County Educational Service Center Note #2	<u>7,500</u>	4%
	<u><u>\$212,000</u></u>	

The General Note is a line of credit issued on August 13, 1999, with an amount up to \$200,000. The note is secured by the assets of the school. The terms of the note had a maturity date of April 30, 2001. The note was extended for another year and is now payable on April 30, 2002. The interest rate on this line of credit is variable, based on one percent over the prime rate. Total interest expense for the year ended June 30, 2001 was \$21,301, of which \$2,880 was payable at year end. In April of 2002, Sky Bank extended the due date for the line of credit to April 30, 2003.

Notes are statutorily limited to maturing at the end of the year the note was issued if the debt obligates or is collateralized by the State monies received by the School under Ohio Law. The General Note (Sky Bank), issued during the year, is general in nature and does not specifically exclude State foundation monies and extended beyond year end, contrary to State statutes.

Lucas County Educational Service Center Note #1 (unsecured), was issued on December 21, 2000, in the amount of \$19,500, and matured on June 30, 2001. The School repaid \$15,000 during the fiscal year, and \$4,500 was payable at year end and was not paid. On August 29, 2001, the entire balance was paid in full.

Lucas County Educational Service Center Note #2 (unsecured), was issued on January 26, 2001, in the amount of \$7,500, and matured on June 30, 2001. The entire note amount of \$7,500 was payable at year end and was not paid. On August 29, 2001, the entire balance was paid in full.

**TOLEDO SCHOOL FOR THE ARTS**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**16. CAPITALIZED LEASES**

The School entered into a capitalized lease for the acquisition of copier equipment and voice mail equipment. The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. The capital leases have been recorded as fixed assets at the present value of the future minimum lease payments as of the inception date.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2001. Payments for principal and interest totaled \$8,457 for the fiscal year ending June 30, 2001.

Fiscal Year Ending June 30,		
2002	\$	9,007
2003		6,612
2004		6,612
2005		6,612
2006		551
Total Minimum Lease Payments	\$	29,394
Less: Amount Representing Interest		(1,846)
Present Value of Minimum Lease Payments	\$	27,548

**17. OPERATING LEASE**

The School entered into an operating lease for the period August 1, 1999 through July 31, 2003, with Hillenbrand/Zaleski Secor, LLC to lease the third floor of its building for operation of the school facility. In addition, the lease was extended to include a one-year lease of the second floor through June 30, 2002. Lease payments totaled \$194,472 for the year. The school is delinquent in it's lease payments. At year end, \$39,335 was owed to the lessor, which is recorded as a liability.

The following is a schedule of the future minimum payments required under the operating lease as of June 30, 2001:

Fiscal Year Ending June 30,		
2002	\$	200,000
2003		166,834
2004		13,903
Total Minimum Lease Payments	\$	380,737

The School has the option to renew the lease for one additional five-year term.

**TOLEDO SCHOOL FOR THE ARTS**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2001**

**(Continued)**

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

The School has an accumulated deficit of \$335,169 for the year ended June 30, 2001, and had an operating loss of \$442,587. The School is analyzing operations and admissions procedures to determine appropriate steps to alleviate the deficit and operating loss. Management plans to eliminate the deficit and operating losses with the following actions:

The Board of Directors of the School has engaged a development consultant to assist in raising funds to defray the deficit for fiscal year 2001. Grant funds in the amount of \$150,000 were received in September of 2001 for Federal Charter School monies.

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STATE OF OHIO  
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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON  
INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Toledo School for the Arts  
Lucas County  
425 Jefferson Ave  
Toledo, Ohio 43604

To the Governing Board:

We have audited the financial statements of the Toledo School for the Arts, Lucas County, (the School) for the year ended June 30, 2001, and have issued our report thereon dated May 7, 2002. Our report expressed substantial doubt as to the ability of the School to continue as a going concern and the School is not current in its obligations to the Auditor of State. 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.

**Compliance**

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2001-10148-001, 2001-10148-002, and 2001-10148-003. We also noted certain immaterial instances of noncompliance that we have reported to management of the School in a separate letter dated May 7, 2002.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. A reportable condition involves matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as 2001-10148-004.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe item 2000-10148-004 is a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School in a separate letter dated May 7, 2002.

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

A handwritten signature in black ink, appearing to read "Jim Petro", written in a cursive style.

**Jim Petro**  
Auditor of State

May 7, 2002



**TOLEDO SCHOOL FOR THE ARTS**  
**SCHEDULE OF FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2001**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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<b>Finding Number</b>	<i>2001-10148-001</i>
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**Noncompliance Citation for Debt**

Community Schools may issue debt. However, if the debt obligates or is secured by State monies received by the community school under Ohio Rev. Code §3314.08(D), then the debt must be issued in accordance with Ohio Rev. Code §3314.08(J), which states, in part, that “the school may issue notes to evidence such borrowing to mature no later than the end of the year in which such money was borrowed.”

During the year ended June 30, 2001, the School issued a \$200,000 note for general operating expenses, with a maturity date of June 13, 2003. The note in question is general in nature. Because the note does not specifically exclude the School’s Ohio Rev. Code §3314.08(D) funds from the general collateral provisions, this note obligates these monies. Therefore, Ohio Rev. Code §3314.08(J) applies.

We recommend the School take steps to monitor debt and determine/ensure there is no outstanding debt subject to Ohio Rev. Code § 3314.08(J) at year end.

<b>Finding Number</b>	<i>2001-10148-002</i>
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**Noncompliance with Fiscal Agent Agreement**

During the year ended June 30, 2001, the School entered into two debt agreements with it’s fiscal agent, Lucas County Educational Service Center. Both of the notes were payable on June 30, 2001. The school made partial payments on note #1, but still had an outstanding balance at June 30, 2001 of \$4,500. The school made no payments on note #2, which had an outstanding balance of \$7,500 at June 30, 2001.

We recommend the school institute procedures which ensure debt obligations are paid when due.

<b>Finding Number</b>	<i>2001-10148-003</i>
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**Teacher Certifications**

Ohio Revised Code 3314.03 (A) (10) qualification of teachers, requires school classroom teachers be licensed in accordance with 3319.22 to 3319.31, except that a community school may engage non-certificated persons to teach up to twelve hours per week pursuant to Ohio Revised Code Section 3319.301. A permit must be issued by the Ohio Department of Education to these “non-certificated” persons in order to teach.

The School was unable to provide proof of license certification and/or permits issued by the Ohio Department of Education for most of its teachers.

We recommend the School adopt and implement policies to ensure that teachers employed by the School be certified and/or that non-certificated employees obtain permits issued by the Ohio Department of Education in order to teach. The policies should include procedures to ensure that certifications be maintained in employee personnel files.

**TOLEDO SCHOOL FOR THE ARTS**  
**SCHEDULE OF FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2001**

<b>Finding Number</b>	<i>2001-10148-004</i>
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**Material Weakness over Fixed Assets**

At the end of fiscal year 2001, the School did perform an inventory of their fixed assets, which included a listing of what assets the school had, where these assets were located, and the dollar value of the asset, if known. Although the school did perform this function, the following control weaknesses over fixed assets exist:

- The School has not accurately developed and implemented procedures to assist in recording assets as additions when purchased, and deletions when disposed of throughout the fiscal year.
- The School has not adopted a formal policy for performing periodic physical inventory of assets.
- The Governing Board has not developed a fixed asset policy wherein it sets forth the capitalization criteria for the School.

Failure to obtain timely records or employ adequate controls over the acquisition and disposal of fixed assets could result in misappropriation of assets and misstatements of recorded assets.

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

- The Governing Board develop and implement procedures to be performed throughout the year, for the recording and updating of fixed assets. These procedures should include tagging all assets meeting the School's capitalization criteria. Further, addition and disposal forms should be completed by the School and approved by management when assets are acquired or disposed. This information should then be entered on a fixed asset accounting system, recording such information as the tag number, a description of the item, the cost, the acquisition date, location and any other supporting documentation.
- The School adopt a formal policy and implement procedures for performing periodic(annual) physical inventories. The physical inventories can be performed by submitting a list of all fixed assets recorded to each location, and having individuals responsible for that location perform the inventory of all assets in that location, and be independently verified by management. Although this is the way in which the School developed their fixed asset listing, they should also have individuals compare the assets in each location to the listing provided, and any assets no longer used should be deleted and any assets included on the listing should be added. Management should verify the accuracy of the recorded information, and significant deficiencies should be investigated and documented accordingly.

**TOLEDO SCHOOL FOR THE ARTS**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2001**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain:</i></b>
2000-10148-001	ORC § 3314.08(J) debt maturity date extends beyond end of the year.	No	Repeated as Finding Number 2001-10148-001
2000-10148-002	Weak controls over fixed assets	No	Repeated as Finding Number 2001-10148-004





STATE OF OHIO  
OFFICE OF THE AUDITOR  

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**TOLEDO SCHOOL FOR THE ARTS**

**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 18, 2002**