

TOLEDO SCHOOL FOR THE ARTS

LUCAS COUNTY

**JULY 1, 2011 TO JUNE 30, 2012
FINANCIAL AUDIT**



Dave Yost • Auditor of State

Governing Board
Toledo School for the Arts
333 14th Street
Toledo, Ohio 43604

We have reviewed the *Independent Auditor's Report* of the Toledo School for the Arts, Lucas County, prepared by Lublin Sussman Group LLP, for the audit period July 1, 2011 through June 30, 2012. 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 Toledo School for the Arts is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

April 17, 2013

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LublinSussman Group LLP

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INDEPENDENT AUDITOR'S REPORT

Toledo School for the Arts
Lucas County
333 14th Street
Toledo, OH 43604

To the Governing Board:

We have audited the accompanying basic financial statements of Toledo School for the Arts, Lucas County, Ohio, (the School), as of and for the year ended June 30, 2012, 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 the 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 Toledo School for the Arts, Lucas County, Ohio, as of June 30, 2012, and the changes in its financial position and cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2013, 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.

www.lublinsussman.com

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Accounting principles generally accepted in the United States of America require *Management's discussion and analysis* as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide and assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

Delvin Sussman Group LLP

March 4, 2013
Toledo, Ohio

Toledo School for the Arts
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

The discussion and analysis of Toledo School for the Arts (TSA) financial performance provides an overall review of TSA's financial activities for the fiscal year ended June 30, 2012. Readers should also review the basic financial statements and notes to enhance their understanding of TSA's financial performance.

Highlights

For the fiscal year ended June 30, 2012, TSA's net assets increased \$139,320, or 9 percent from the prior fiscal year. Operating revenues increased almost 14 percent primarily due to an increase in State Foundation resources (based on enrollment). Operating expenses increased 4 percent. Non-operating revenues decreased 52% due to fewer grant resources and the end of some programs plus less contribution revenue resulting from a pledge campaign in the prior year. The excess of revenues over expenses provided for the increase in total net assets.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements.

The statement of net assets and the statement of revenues, expenses, and change in net assets reflect how TSA did financially during fiscal year 2012. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

These statements report TSA's net assets and change in those assets. This change in net assets is important because it tells the reader whether the financial position of TSA has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating.

Table 1 provides a summary of TSA's net assets for fiscal year 2012 and fiscal year 2011:

	Table 1 Net Assets		
	2012	2011	Change
<u>Assets:</u>			
Current Assets	\$1,193,237	\$1,032,811	\$160,426
Non-Current Assets (excluding capital assets)	584,665	667,683	(83,018)
Capital Assets, Net	3,975,360	4,081,116	(105,756)
Total Assets	5,753,262	5,781,610	(28,348)
<u>Liabilities:</u>			
Current Liabilities	785,113	726,399	(58,714)
Non-Current Liabilities	3,352,897	3,579,279	226,382
Total Liabilities	4,138,010	4,305,678	167,668
<u>Net Assets:</u>			
Invested in Capital Assets	923,044	851,623	71,421
Restricted	390,200	390,803	(603)

Toledo School for the Arts
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

Unrestricted	302,008	233,506	68,502
Total Net Assets	\$1,615,252	\$1,475,932	\$139,320

The increase in current assets was primarily due to an increase in State Foundation resources (based on enrollment). The decrease in net capital assets is due to annual depreciation expense.

The decrease in non-current liabilities resulted from the payment of debt principal for purchase of the facility.

Table 2 reflects the change in net assets for fiscal year 2012 and fiscal year 2011.

Table 2
Change in Net Assets

	2012	2011	Change
<u>Operating Revenues:</u>			
Foundation	\$4,049,535	\$3,553,882	\$495,653
Sales	176,863	181,724	19,791
Tuition and Fees	9,518	3,656	5,862
Other Operating Revenues	56,780	42,755	(10,627)
Total Operating Revenues	4,292,696	3,782,017	510,679
<u>Non-Operating Revenues:</u>			
Operating Grants	330,054	875,930	(545,876)
Contributions and Donations	396,215	624,886	(228,671)
Interest Revenue	499	316	183
Capital Contributions	0	5,995	(5,995)
Total Non-Operating Revenues	726,768	1,507,127	(780,359)
Total Revenues	5,019,464	5,289,144	(269,680)
<u>Operating Expenses:</u>			
Salaries	2,580,655	2,511,250	(69,405)
Fringe Benefits	706,470	691,047	(15,423)
Purchased Services	849,361	826,582	(22,779)
Materials and Supplies	317,824	247,629	(70,195)
Depreciation	116,426	116,278	(148)
Other Operating Expenses	66,560	61,656	(4,904)
Total Operating Expenses	4,637,296	4,454,442	(182,854)
<u>Non-Operating Expenses</u>			
Interest Expense	242,848	241,895	(953)
Total Expenses	4,880,144	4,696,337	(183,807)
Increase in Nets Assets	139,320	592,807	(453,487)
Net Assets at Beginning of Year	1,475,932	883,125	592,807
Net Assets at End of Year	\$1,615,252	\$1,475,932	\$139,320

The most significant changes in revenues are reflected in foundation revenues, operating grants, and contributions and donations. The increase in foundation revenue reflects funding provided by the State of Ohio based on the per pupil allocation and student enrollment. The decrease in operating grants was due to fewer grant resources and the end of some programs. In the prior fiscal year, there was substantial contribution revenue resulting from the pledge campaign during the fiscal year.

The overall change in expenses was not significant.

Toledo School for the Arts
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

Budgeting

TSA is not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705.

Capital Assets

At the end of fiscal year 2012, TSA had \$3,975,360 invested in capital assets (net of accumulated depreciation). The change from the prior fiscal year is primarily due to annual depreciation. For further information regarding TSA's capital assets, refer to Note 5 to the basic financial statements.

Debt Administration

At the end of fiscal year 2012, TSA had outstanding development revenue bonds, in the amount of \$3,268,334, and outstanding loans, in the amount of \$310,945. Final maturity on the revenue bonds is in fiscal year 2028 and final maturity on the loans is in fiscal years 2014 and 2015. For further information regarding TSA's long-term obligations, refer to Note 10 to the basic financial statements.

Current Issues

Bowling Green State University initially adopted the sponsorship contract of TSA for a period of four years, from July 1, 2008, through June 30, 2012. The sponsorship agreement was renewed in the spring of 2012 for an additional five years through June 30, 2017.

The Toledo Community Foundation houses an endowment fund for the Toledo School for the Arts. Established in July 2008, the purpose of this endowment is to provide funding for programs which would not otherwise be available through federal, state, or local sources. The balance of the endowment on June 30, 2012, was \$59,994.87.

Contacting TSA's Financial Management

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of TSA's finances and to reflect TSA's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Kelley Allred, Treasurer, Toledo School for the Arts, 333 14th Street, Toledo, Ohio, 43604.

Toledo School for the Arts
Statement of Net Assets
June 30, 2012

<u>Assets:</u>	
<u>Current Assets:</u>	
Cash and Cash Equivalents	\$967,374
Accounts Receivable	39,730
Intergovernmental Receivable	85,352
<u>Restricted Assets:</u>	
Cash and Cash Equivalents with Fiscal Agent	15,198
Pledges Receivable	85,583
Total Current Assets	<u>1,193,237</u>
 <u>Non-Current Assets:</u>	
<u>Restricted Assets:</u>	
Cash and Cash Equivalents with Fiscal Agent	375,002
Pledges Receivable	57,700
Unamortized Bond Issuance Costs	151,963
Nondepreciable Capital Assets	58,300
Depreciable Capital Assets, Net	3,917,060
Total Non-Current Assets	<u>4,560,025</u>
 Total Assets	 <u>5,753,262</u>
 <u>Liabilities:</u>	
<u>Current Liabilities:</u>	
Accounts Payable	1,205
Accrued Wages and Benefits Payable	350,349
Intergovernmental Payable	82,499
Accrued Interest Payable	15,399
Security Deposits	32,000
Deferred Revenue	77,279
Development Revenue Bonds Payable	133,333
Loans Payable	93,049
Total Current Liabilities	<u>785,113</u>
 <u>Non-Current Liabilities</u>	
Development Revenue Bonds Payable	3,135,001
Loans Payable	217,896
Total Non-Current Liabilities	<u>3,352,897</u>
 Total Liabilities	 <u>4,138,010</u>
 <u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	923,044
<u>Restricted for:</u>	
Current Debt Service	15,198
Future Debt Service	375,002
Unrestricted	302,008
Total Net Assets	<u><u>\$1,615,252</u></u>

See Accompanying Notes to Basic Financial Statements

Toledo School for the Arts
Statement of Revenues, Expenses, and Change in Net Assets
For the Fiscal Year Ended June 30, 2012

<u>Operating Revenues:</u>	
Foundation	\$4,049,535
Sales	176,863
Tuition and Fees	9,518
Other Operating Revenues	56,780
Total Operating Revenues	<u>4,292,696</u>
 <u>Operating Expenses:</u>	
Salaries	2,580,655
Fringe Benefits	706,470
Purchased Services	849,361
Materials and Supplies	317,824
Depreciation	116,426
Other Operating Expenses	66,560
Total Operating Expenses	<u>4,637,296</u>
 Operating Loss	 <u>(344,600)</u>
 <u>Non-Operating Revenues (Expenses)</u>	
Grants	330,054
Contributions and Donations	396,215
Interest Revenue	499
Interest Expense	(242,848)
Total Non-Operating Revenues	<u>483,920</u>
 Change in Net Assets	 139,320
 Net Assets at Beginning of Year	 <u>1,475,932</u>
Net Assets at End of Year	<u><u>\$1,615,252</u></u>

See Accompanying Notes to the Basic Financial Statements

Toledo School for the Arts
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2012

<u>Increase (Decrease) in Cash and Cash Equivalents</u>	
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Foundation	\$4,102,025
Cash Received from Sales	202,601
Cash Received from Tuition and Fees	9,518
Cash Received from Other Revenues	32,728
Cash Payments for Personal Services	(2,582,103)
Cash Payments for Fringe Benefits	(700,064)
Cash Payments for Goods and Services	(1,172,178)
Cash Payments for Other Expenses	(65,335)
	<hr/>
Net Cash Used for Operating Activities	(172,808)
	<hr/>
<u>Cash Flows from Noncapital Financing Activities:</u>	
Cash Received from Grants	460,157
Cash Received from Contributions and Donations	445,703
	<hr/>
Net Cash Provided by Noncapital Financing Activities	905,860
	<hr/>
<u>Cash Flows from Capital and Related Financing Activities</u>	
Principal Paid on Development Revenue Bonds	(130,833)
Interest Paid on Development Revenue Bonds	(204,628)
Principal Paid on Loans	(55,862)
Interest Paid on Loans	(16,279)
Acquisition of Capital Assets	(10,670)
	<hr/>
Net Cash Used for Capital and Related Financing Activities	(418,272)
	<hr/>
<u>Cash Flows from Investing Activities:</u>	
Cash Received from Interest	499
	<hr/>
Net Increase in Cash and Cash Equivalents	315,279
Cash and Cash Equivalents at Beginning of Year	1,042,295
Cash and Cash Equivalents at End of Year	<hr/> <u>\$1,357,574</u> <hr/>

(continued)

Toledo School for the Arts
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2012
(continued)

Reconciliation of Operating Loss	
<u>to Net Cash Used for Operating Activities:</u>	
Operating Loss	(\$344,600)
Adjustments to Reconcile Operating Loss	
<u>to Net Cash Used for Operating Activities:</u>	
Depreciation	116,426
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	966
Decrease in Intergovernmental Receivable	47,796
Decrease in Accounts Payable	(4,888)
Decrease in Accrued Wages and Benefits Payable	(3,624)
Increase in Intergovernmental Payable	9,702
Increase in Deferred Revenue	5,414
Net Cash Used for Operating Activities	<u><u>(\$172,808)</u></u>

See Accompanying Notes to the Basic Financial Statements

Toledo School for the Arts
Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
June 30, 2012

	Private Purpose Trust	Agency
<u>Assets:</u>		
Equity in Pooled Cash and Cash Equivalents	\$40,836	\$8,620
<u>Liabilities:</u>		
Due to Students	0	\$8,620
<u>Net Assets:</u>		
Held in Trust for Scholarships	\$40,836	

See Accompanying Notes to the Basic Financial Statements

Toledo School for the Arts
Statement of Change in Fiduciary Net Assets
Private Purpose Trust Fund
June 30, 2012

	<u>Private Purpose Trust</u>
<u>Additions:</u>	
Contributions and Donations	\$41,675
<u>Deductions:</u>	
Non-Instructional Services	<u>25,908</u>
Change in Net Assets	15,767
Net Assets at Beginning of Year	<u>25,069</u>
Net Assets at End of Year	<u><u>\$40,836</u></u>

See Accompanying Notes to the Basic Financial Statements

Toledo School for the Arts
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 1 - Description of the School

Toledo School for the Arts (TSA) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. TSA 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 TSA's tax exempt status. TSA's objective is to serve students who are not thriving in a traditional setting, desire meaningful learning experiences, and wish to regain a level of control over their educational experience. TSA encompasses a safe community environment, discovery based methods, parenting education, critical thinking, and problem solving. TSA's programs are currently available to students in grades 6 through 12. TSA, 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. TSA may acquire facilities as needed and contract for any services necessary for the operation of TSA.

TSA was approved for operation under a contract with Bowling Green State University (the Sponsor) for a period of five years commencing July 1, 2012. The Sponsor is responsible for evaluating the performance of TSA and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

TSA operates under the direction of an eighteen 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. It is staffed by sixteen classified employees, fifty certified teaching personnel, and eight administrative employees who provide services to five hundred sixty-five students and other community members.

Note 2 - Summary of Significant Accounting Policies

The basic financial statements of TSA have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. TSA 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. TSA does not apply Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989. Following are the more significant of the TSA's accounting policies.

A. Basis of Presentation

TSA's basic financial statements consist of a statement of net assets; a statement of revenues, expenses, and change in net assets, and a statement of cash flows.

TSA uses enterprise accounting to maintain its financial records during the fiscal year. Enterprise accounting focuses on the determination of operating income, change in net assets, financial position, and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods or services.

Note 2 - Summary of Significant Accounting Policies (continued)

TSA also maintains two fiduciary funds. Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by TSA under a trust agreement for individuals, private organizations, or other governments and are not available to support TSA'S own programs. TSA's private purpose trust fund accounts for programs that provide college scholarships to students after graduation. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. TSA's agency fund accounts for various non-instructional student-managed activities.

C. Measurement Focus

TSA is accounted for using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of TSA are included on the statement of net assets. The statement of revenues, expenses, and change in net assets presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets. The statement of cash flows reflects how TSA finances and meets its cash flow needs.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. TSA's financial statements are prepared using the accrual basis of accounting. Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded when the exchange takes place. Revenues resulting from nonexchange transactions, in which TSA receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which TSA must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to TSA on a reimbursement basis. Expenses are recognized at the time they are incurred.

E. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided by TSA's contract with its Sponsor. The contract between TSA and its Sponsor does prescribe a budget requirement.

F. Cash and Cash Equivalents

Cash held by TSA is reflected as "Cash and Cash Equivalents" on the statement of net assets. Investments with an original maturity of three months or less at the time they are purchased are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months are reported as investments. During fiscal year 2012, TSA invested in mutual funds which are reported at fair value. Fair value is based on current share price.

Cash and cash equivalents that are held separately with the Bank of New York are recorded as "Cash and Cash Equivalents with Fiscal Agent".

Note 2 - Summary of Significant Accounting Policies (continued)

G. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws of other governments, or imposed by law through constitutional provisions.

Restricted assets represent certain resources which are segregated from other resources of TSA to comply with various covenants established by bond financing agreements. These assets are generally held in separate accounts of TSA or by a trustee. The various covenants place restrictions on the use of these resources, require minimum balances to be maintained in certain accounts, and establish annual amounts to be accumulated for specific purposes.

H. Unamortized Issuance Costs

Issuance costs are deferred and amortized over the term of the bonds using the bonds-outstanding method, which approximates the effective interest method. Issuance costs are recorded as deferred charges and are generally paid from debt proceeds.

I. Capital Assets

All capital assets are capitalized at cost and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their fair market value on the date donated. TSA maintains a capitalization threshold of five thousand dollars. TSA does not have 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.

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

Description	Useful Lives
Buildings and Building Improvements	15 - 50 years
Furniture, Fixtures, and Equipment	5-40 years
Vehicles	15 years

J. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. TSA first applies restricted resources when an expense is incurred for which both restricted and unrestricted net assets are available.

Note 2 - Summary of Significant Accounting Policies (continued)

K. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of TSA. For TSA, these revenues are generally foundation payments from the State. TSA also received operating revenues from sales (ticket and store sales) and from tuition and fees. Operating expenses are necessary costs incurred to provide the service that is the primary activity of TSA. All revenues and expenses not meeting this definition are reported as non-operating.

L. Estimates

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

Note 3 - Deposits and Investments

At fiscal year end, the carrying amount of TSA's deposits was \$1,032,028 and the bank balance was \$1,152,433 of which \$861,502 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject TSA to a successful claim by the FDIC.

As of June 30, 2012, TSA's investments consisted of mutual funds, in the amount of \$375,002. The mutual funds had a AAA rating from Moody's and an average maturity of 41 days. TSA has no policy addressing interest rate risk.

Note 4 - Receivables

Receivables at June 30, 2012, consisted of accounts, intergovernmental, and pledges receivable. All receivables are considered collectible due to the stable condition of State programs and the current year guarantee of federal funds. All receivables, except pledges, are expected to be collected within one year. Pledges, in the amount of \$57,700, will not be received within one year.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Education Jobs	\$3,561
Idea Part-B	18,221
Title II-D	1,191
Title I	55,544
Title II-A	6,835
Total Intergovernmental Receivables	<u>\$85,352</u>

Toledo School for the Arts
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 5 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Balance at 6/30/11	Additions	Reductions	Balance at 6/30/12
Nondepreciable Capital Assets				
Land	\$58,300	\$0	\$0	\$58,300
Depreciable Capital Assets				
Buildings and Building Improvements	4,569,948	0	0	4,569,948
Furniture, Fixtures, and Equipment	78,950	0	0	78,950
Vehicles	0	10,670	0	10,670
Total Depreciable Capital Assets	4,648,898	10,670	0	4,659,568
Less Accumulated Depreciation				
Buildings and Building Improvements	(567,200)	(108,120)	0	(675,320)
Furniture, Fixtures, and Equipment	(58,882)	(8,306)	0	(67,188)
Total Accumulated Depreciation	(626,082)	(116,426)	0	(742,508)
Depreciable Capital Assets, Net	4,022,816	(105,756)	0	3,917,060
Capital Assets, Net	\$4,081,116	(\$105,756)	\$0	\$3,975,360

Note 6 - Risk Management

TSA 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. During fiscal year 2012, TSA contracted for the following insurance coverage:

Coverage provided by The Netherlands Insurance Company is as follows:

Building and Contents	\$3,551,363
Umbrella Liability	2,000,000
General School District Liability	
Per Occurrence	1,000,000
Total Per Year	2,000,000
Automobile Liability	1,000,000
Uninsured Motorists	1,000,000

Settled claims have not exceeded this commercial coverage for the past three fiscal years, and there has been no significant reduction in insurance coverage from the prior fiscal year.

Workers' compensation coverage is provided by the State of Ohio. TSA pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

Note 7 - Defined Benefit Pension Plans

A. State Teachers Retirement System

Plan Description - TSA 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 can be obtained by writing to the State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DCP 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 fifty and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The CP offers features of both the DBP and the DCP. In the CP, 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 DBP. The DBP portion of the CP payment is payable to a member on or after age sixty; the DCP portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age fifty. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DBP or CP 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 DCP who become disabled are entitled only to their account balance. If a member of the DCP dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the STRS Ohio Board upon the recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. For the fiscal year ended June 30, 2012, plan members were required to contribute 10 percent of their annual covered salary. TSA was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

TSA's required contribution to STRS Ohio for the DBP and for the defined benefit portion of the CP were \$254,784 and \$5,520 for the fiscal year ended June 30, 2012, \$255,814 and \$5,495 for the fiscal year ended June 30, 2011, and \$230,935 and \$9,443 for the fiscal year ended June 30, 2010. For fiscal year 2012, 82 percent has been contributed for both the DBP and CP, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

The contribution to STRS Ohio for the DCP for fiscal year 2012 was \$10,664 made by TSA and \$7,617 made by the plan members. In addition, member contributions of \$3,943 were made for fiscal year 2012 for the defined contribution portion of the CP.

Note 7 - Defined Benefit Pension Plans (continued)

B. School Employees Retirement System

Plan Description - TSA participates in the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor 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 stand-alone financial report that can be obtained by visiting the SERS website at www.ohsers.org under employers/audit resources.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and TSA is required to contribute 14 percent of annual covered payroll. The contribution requirement of plan members and employers is established and may be amended by the SERS Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the system's funds (pension trust fund, death benefit fund, Medicare B fund, and health care fund). For the fiscal year ended June 30, 2012, the allocation to pension and death benefits was 12.7 percent. The remaining 1.3 percent of the 14 percent employer contribution rate was allocated to the Medicare B and health care funds. TSA's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2012, 2011, and 2010 was \$62,886, \$49,908, and \$36,767, respectively. For fiscal year 2012, 85 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

Note 8 - Postemployment Benefits

A. State Teachers Retirement System

Plan Description - TSA participates in a cost-sharing multiple-employer defined benefit Health Care Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the Defined Benefit or Combined pension plans offered by STRS Ohio. Ohio law authorizes STRS Ohio to offer the Plan. Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare Part B premiums. The Plan is included in STRS Ohio's financial report which can be obtained by calling (888) 227-7877 or by visiting the STRS Ohio Web site at www.strsoh.org.

Funding Policy - Chapter 3307 of the Ohio Revised Code authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions. For fiscal year 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to postemployment health care. TSA's contribution for health care for the fiscal years ended June 30, 2012, 2011, and 2010 was \$20,844, \$20,891, and \$19,219, respectively. For fiscal year 2012, 82 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

Note 8 - Postemployment Benefits (continued)

B. School Employees Retirement System

Plan Description - TSA participates in two cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plans administered by the School Employees Retirement System (SERS) for classified retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligation to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which can be obtained by visiting the SERS website at www.ohsers.org under employers/audit resources.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each fiscal year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For fiscal year 2012, .55 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount. For fiscal year 2012, this amount was \$35,800. For fiscal year 2012, TSA paid \$6,293 in surcharge.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility, and retirement status.

TSA's contribution for health care for the fiscal years ended June 30, 2012, 2011, and 2010 was \$2,723, \$6,043, and \$1,323, respectively. For fiscal year 2012, 85 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare Part B Fund. For fiscal year 2012, this actuarially required allocation was .75 percent of covered payroll. TSA's contribution for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 was \$3,714, \$3,212, and \$2,186, respectively. For fiscal year 2012, 85 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

Note 9 - Other Employee Benefits

TSA provides medical benefits through Paramount, vision benefits through Vision Service Plan, and dental benefits through Delta Dental. The Board pays the entire monthly premium, except for part-time employees who pay a pro-rated portion for their benefits.

TSA also provides life insurance to active full-time employees through the Hartford Life Insurance Company.

Toledo School for the Arts
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 10 - Long-Term Obligations

Changes in TSA's long-term obligations during fiscal year 2012 were as follows:

	Balance at 6/30/11	Additions	Reductions	Balance at 6/30/12	Amounts Due Within One Year
Long-Term Obligations					
FY 2008 Development Revenue Bonds - 5.5%	\$3,399,167	\$0	\$130,833	\$3,268,334	\$133,333
Loans Payable					
FY 2008 Loan - 7.25%	249,807	0	55,862	193,945	60,049
FY 2005 Loan - 0%	117,000	0	0	117,000	33,000
Total Loans	366,807	0	55,862	310,945	93,049
Total Long-Term Obligations	\$3,765,974	\$0	\$186,695	\$3,579,279	\$226,382

FY 2008 Development Revenue Bonds - On December 19, 2007, Toledo Lucas County Port Authority issued bonds on behalf of TSA, in the amount of \$3,750,000, for building acquisition and improvement. Of this amount, \$375,000 was not capitalized. The bonds were issued for a twenty year period, with final maturity in fiscal year 2028.

The bonds are subject to optional redemption, by and at the sole option of TSA, either in whole or in part and in integral multiples of \$5,000, on any date on or after November 15, 2017, at a redemption price of 100 percent of the principal amount redeemed plus accrued interest to the redemption date.

The bonds are also subject to mandatory sinking redemption at a redemption price of 100 percent of the principal amount redeemed plus accrued interest to the redemption date, on each May 15 and November 15, in the following principal amounts and in the years specified:

Year	May 15 Principal Amount	November 15 Principal Amount
2008	\$0	\$40,000
2009	55,000	60,000
2010	60,000	60,000
2011	65,000	65,000
2012	65,000	70,000
2013	65,000	60,000
2014	60,000	60,000
2015	65,000	65,000
2016	65,000	70,000
2017	70,000	75,000
2018	75,000	80,000
2019	80,000	85,000
2020	85,000	85,000

(continued)

Toledo School for the Arts
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 10 - Long-Term Obligations (continued)

Year	May 15 Principal Amount	November 15 Principal Amount
2021	90,000	95,000
2022	95,000	100,000
2023	100,000	105,000
2024	110,000	110,000
2025	115,000	120,000
2026	120,000	125,000
2027	130,000	135,000
2028	515,000	0

FY 08 Loan - On December 1, 2007, TSA obtained a loan, in the amount of \$400,000, from the Toledo Lucas County Port Authority for building acquisition and improvement. The loan was issued for a seven year period, with final maturity in fiscal year 2015.

FY 05 Loan - On July 15, 2004, TSA obtained a loan, in the amount of \$150,000, from the Stranahan Foundation for building acquisition and improvement. The loan was issued for a fifteen year period, with final maturity in fiscal year 2020. Effective, December 1, 2013, an annual interest rate of prime minus 1 percent will be charged on any outstanding principal balance.

Principal and interest requirements to retire outstanding long-term obligations at June 30, 2012, were as follows:

Fiscal Year Ending June 30,	<u>Development Revenue Bonds</u>	
	Principal	Interest
2013	\$133,333	\$195,965
2014	120,000	188,163
2015	125,833	180,866
2016	130,833	173,114
2017	140,833	165,034
2018-2022	849,168	683,354
2023-2027	1,140,834	391,175
2028	627,500	32,846
Total	<u>\$3,268,334</u>	<u>\$2,010,517</u>

Fiscal Year Ending June 30,	<u>FY 08 Loan</u>	
	Principal	Interest
2013	\$60,049	\$12,092
2014	64,551	7,590
2015	69,345	2,217
Total	<u>\$193,945</u>	<u>\$21,899</u>

Toledo School for the Arts
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 10 - Long-Term Obligations (continued)

Fiscal Year Ending June 30,	FY 05 Loan	
	Principal	Interest
2013	\$33,000	\$0
2014	84,000	0
Total	\$117,000	\$0

Note11 - Operating Lease

TSA entered into an operating lease with Melkonian Investments for office and storage space located at 333 Fourteenth Street, Toledo, Ohio 43604. The period commenced in August 2007 and is ongoing. Lease payments were \$2,400 for fiscal year 2012. At fiscal year end, all rent owed to the lessor was paid in full.

On July 1, 2011, TSA entered into an operating lease for computer equipment that expires on June 30, 2014. Lease expense was \$19,036 during fiscal year 2012. Future minimum lease payments under this lease are \$19,036 for fiscal years 2013 and 2014 for a total of \$38,072.

Note12 - Contingencies

A. Grants

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

TSA received financial assistance from federal and State agencies in the form of grants. The expenditure 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 General Fund or other applicable funds. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of TSA at June 30, 2012, if applicable, cannot be determined at this time.

B. Litigation

There are currently no matters in litigation with TSA as a defendant.

C. Full Time Equivalency

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by community 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 conclusions of this review could result in State funding being adjusted. Based on this review, TSA is expected to owe \$4,693 for fiscal year 2012. This amount is recorded as an intergovernmental payable.

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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

Toledo School for the Arts
Lucas County
333 14th Street
Toledo, OH 43604

To the Governing Board:

We have audited the basic financial statements of Toledo School for the Arts, Lucas County, Ohio; (the School) as of and for the year ended June 30, 2012, and have issued our report thereon dated March 4, 2013. 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

Management of the School is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of control deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purposes described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that we consider to be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we considered to be material weaknesses as defined above.

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Compliance and Other Matters

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 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 test disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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

Delvin Sussman Group LLP

March 4, 2013
Toledo, Ohio



Dave Yost • Auditor of State

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
MAY 9, 2013