



**TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2000



**JIM PETRO
AUDITOR OF STATE**

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 Avenue
Toledo, Ohio 43604

To the Governing Board:

We have audited the Balance Sheet of the Toledo School for the Arts, Lucas County, (the School) as of June 30, 2000, and the related Statement of Revenues, Expenses, and Changes in Accumulated Deficit, and the Statement of Cash Flows for the year ended June 30, 2000. 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 generally accepted auditing standards 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, 2000, and the results of operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

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 \$252,841 for the year ended June 30, 2000, has a working capital deficiency of \$122,492 as of June 30, 2000 and accumulated a deficit retained earnings of \$6,231. 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2001 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.

Jim Petro
Auditor of State

March 29, 2001

**TOLEDO SCHOOL FOR THE ARTS
BALANCE SHEET
AS OF JUNE 30, 2000**

Assets

Current Assets

Cash and Cash Equivalents with Fiscal Agent	\$38,715
Accounts Receivable	299
Prepaid Items	<u>1,597</u>
 Total Current Assets	 40,611

Non-Current Assets

Security Deposit	13,903
Fixed Assets (Net of Accumulated Depreciation)	<u>324,929</u>
 Total Non-Current Assets	 <u>338,832</u>
 Total Assets	 <u><u>\$379,443</u></u>

Liabilities and Fund Equity

Liabilities

Accounts Payable	\$43,044
Accrued Wages Payable	41,308
Compensated Absences Payable	4,582
Intergovernmental Payable	8,722
Due to Students	798
Accrued Interest Payable	3,420
Notes Payable - Current Portion	47,865
Leases Payable - Current Portion	<u>13,364</u>
 Total Current Liabilities	 163,103

Long-Term Liabilities

Lease Payable - Long-Term Portion	22,512
Notes Payable - Long-Term Portion	<u>112,135</u>
 Total Long-Term Liabilities	 <u>134,647</u>
 Total Liabilities	 297,750

Fund Equity

Contributed Capital	87,924
Accumulated Deficit	<u>(6,231)</u>
 Total Fund Equity	 <u>81,693</u>
 Total Liabilities and Fund Equity	 <u><u>\$379,443</u></u>

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, 2000**

Operating Revenues

Foundation Payments	\$612,896
Disadvantaged Pupil Impact Aid	43,060
Food Services	4,155
Classroom Materials and Fees	10,669
Other Operating Revenues	<u>2,361</u>
 Total Operating Revenues	 <u>673,141</u>

Operating Expenses

Salaries	463,166
Fringe Benefits	88,533
Purchased Services	193,208
Materials and Supplies	94,113
Depreciation	81,233
Other Operating Expenses	<u>5,729</u>
 Total Operating Expenses	 <u>925,982</u>
 Operating Loss	 <u>(252,841)</u>

Non-Operating Revenues and (Expenses)

Operating Grants - Federal	5,000
Operating Grants - State	100,657
Interest Earnings	1,509
Contributions and Donations	154,389
Interest and Fiscal Charges	<u>(14,945)</u>
 Total Non-Operating Revenues and (Expenses)	 <u>246,610</u>
 Net Income	 (6,231)
 Retained Earnings at Beginning of Year	 <u>0</u>
 Accumulated Deficit at End of Year	 <u><u>(\$6,231)</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, 2000**

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$655,956
Cash Received from Food Services	\$8,138
Cash Received from Classroom Materials and Fees	\$10,370
Cash Payments to Suppliers for Goods and Services	(266,986)
Cash Payments to Employees for Services	(416,620)
Cash Payments to Employee Benefits	(79,811)
	<hr/>
Net Cash Used by Operating Activities	(88,953)

Cash Flows from Noncapital Financing Activities:

Operating Grants Received - Federal	5,000
Operating Grants Received - State	100,657
Contributions and Donations	154,389
	<hr/>
Net Cash Provided by Noncapital Financing Activities	260,046

Cash Flows from Capital and Related Financing Activities:

Proceeds from Sale of Notes	200,000
Principal Payments	(40,000)
Payments for Capital Acquisitions	(282,362)
Interest Payments and Fiscal Charges	(11,525)
	<hr/>
Net Cash Used by Capital and Related Financing Activities	(133,887)

Cash Flows from Investing Activities:

Interest on Investments	1,509
	<hr/>
Net Cash Provided by Investing Activities	1,509
	<hr/>
Net Increase in Cash and Cash Equivalents	38,715
Cash and Cash Equivalents at the Beginning of the Year	0
	<hr/>
Cash and Cash Equivalents at the End of the Year	<u>\$38,715</u>

(Continued)

**TOLEDO SCHOOL FOR THE ARTS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

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

Operating Loss (252,841)

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

Depreciation	81,233
Changes in Assets and Liabilities:	
Increase in Security Deposit	(13,903)
Increase in Prepaid Items	(1,597)
Increase in Accounts Receivable	(299)
Increase in Accounts Payable	43,044
Increase in Accrued Wages Payable	41,308
Increase in Compensated Absences Payable	4,582
Increase in Due to Students	798
Increase in Intergovernmental Payable	<u>8,722</u>
Total Adjustments	<u>163,888</u>
Net Cash Used by Operating Activities	<u><u>(\$88,953)</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, 2000**

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 11th grade in the 2002 school year and 12th 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 that the Treasurer of Lucas County Educational Service Center shall 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 2 non-certified personnel and 32 certificated teaching personnel who provide services to 148 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, 2000
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Measurement Focus and Basis of Accounting

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, 2000
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Intergovernmental Revenues

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 they are earned and become measurable.

The School also participates in the Charter School Grant Program through the Ohio Department of Education. Under this program, as part of the Lucas County pilot project, the Lucas County Educational Service Center awarded the School \$100,000 to partially defray school start-up costs. Revenue from this program is recognized as non-operating revenue on the accompanying financial statements.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which they are earned and become measurable.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2000, 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.

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, 2000
(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, 2000, the carrying amount of the School's deposits was \$38,715 and the bank balance was \$62,842. The bank balance was covered by federal depository insurance.

5. RECEIVABLES

Receivables at June 30, 2000, consisted of accounts (e.g. student fees) receivable. Receivables are considered collectible in full.

6. FIXED ASSETS

A summary of the School's fixed assets at June 30, 2000, follows:

Leasehold Improvements	\$294,488
Furniture and Equipment	111,674
Less: Accumulated Depreciation	<u>(81,233)</u>
Net Fixed Assets	<u><u>\$324,929</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 the year ended June 30, 2000, the School contracted with National Fire Insurance Company of Hartford for property and general liability insurance.

Professional liability is protected by National Fire Insurance Company of Hartford with a \$1,000,000 single occurrence limit and \$2,000,000 aggregate limit and no deductible.

TOLEDO SCHOOL FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)

7. RISK MANAGEMENT (continued)

B. Workers' Compensation

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

C. Employee Medical, Dental, and Vision Benefits

The School has contracted through the Fiscal Agent to provide employee medical, dental, and vision insurance to its full time employees who work 20 or more hours per week.

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; for the year June 30, 2000, 5.5 percent was the portion 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 year ended June 30, 2000 was \$1,982; 91.78 percent has been contributed for the year ended June 30, 2000. The unpaid contribution at June 30, 2000, in the amount of \$452, is recorded as a liability.

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.

TOLEDO SCHOOL FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)

8. DEFINED BENEFIT PENSION PLANS (continued)

B. State Teachers Retirement System (continued)

Plan members are required to contribute 9.3 percent of their annual covered salary and the School is required to contribute 14 percent; 6 percent was the portion used to fund pension obligations for the year 2000. 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 year ended June 30, 2000 was \$22,875; 91.35 percent has been contributed for year ended June 30, 2000. The unpaid contribution at June 30, 2000, in the amount of \$5,051, is recorded as a liability.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security System. As of June 30, 2000, the School has no employees or members of the governing board who contribute to the Social Security System.

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 on a pay-as-you-go basis.

For STRS, all benefit recipients are required to pay a portion of health care costs in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The Governing Board currently allocates employer contributions equal to eight percent of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. For the School, this amount equaled \$30,499 during the year.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, 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 this year, employer contributions to fund health care benefits were 8.5 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For the year ended June 30, 2000, the minimum pay has been established at \$12,400. For the School, the amount to fund health care benefits, including surcharge, equaled \$3,063 during the year.

TOLEDO SCHOOL FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)

10. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation is derived from policies and procedures approved by the Governing Board. Two members 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 March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to the School. During the year ended June 30, 2000, the School received \$612,896 of school foundation support.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State General Assembly in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. On May 11, 2000, the Ohio Supreme Court rendered an opinion on this issue. The Court concluded, "...the mandate of the [Ohio] Constitution has not been fulfilled." The Court's majority recognized efforts by the Ohio General Assembly taken in response to the Court's March 24, 1997 decision, however, it found seven "...major areas warrant further attention, study, and development by the General Assembly..." including the State's reliance on local property tax funding, the State's basic aid formula, the school foundation program, as discussed above, the mechanism for, and adequacy of, funding for school facilities, and the existence of the State's School Solvency Assistance Fund, which the Court found took the place of the unconstitutional emergency school loan assistance program.

The Court decided to maintain jurisdiction over these issues and continued the case at least until June 15, 2001.

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

**TOLEDO SCHOOL FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

12. CONTINGENCIES

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, 2000.

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.

14. PURCHASED SERVICE EXPENSES

For the year ended June 30, 2000, purchased service expenses were payments for services rendered by various vendors, as follows:

PURCHASED SERVICES

Property Services	\$116,643
Professional & Technical Services	35,291
Legal Fees	7,671
Communications	4,331
Advertising	4,302
Property Insurance	3,766
Travel Mileage/Meeting Expenses	2,757
Other Administrative and Professional Services	2,753
Mailing and Printing	2,174
Professional Development	1,313
LCESC Accounting Fees (See Note 13)	<u>12,207</u>
Total Purchased Services	<u><u>\$193,208</u></u>

TOLEDO SCHOOL FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)

15. DEBT

Debt outstanding at June 30, 2000 was as follows:

	Principal	Interest Rate
General Note (Mid Am Bank)	\$160,000	10.50%

The annual requirements to amortize the note outstanding as of June 30, 2000, based on the most recent interest rate of 10.5%, are as follows:

Year ending June 30:	Principal	Interest	Total
2001	47,865	14,540	62,405
2002	53,139	9,266	62,405
2003	58,996	3,409	62,405
Total	\$160,000	\$27,215	\$187,215

The above note is a line of credit issued on August 13, 1999, with an amount up to \$200,000. The terms of the note include monthly principal and interest payments with the balance of the note payable on June 13, 2003. Total interest paid for the year ended June 30, 2000 was \$8,893.

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 note above 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.

16. CAPITALIZED LEASES - LESSEE DISCLOSURE

During the year ended June 30, 2000, 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.

**TOLEDO SCHOOL FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

16. CAPITALIZED LEASES - LESSEE DISCLOSURE (continued)

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, 2000.

Year	
Ending June 30,	
2001	13,502
2002	5,628
2003	5,628
2004	5,628
2005	<u>5,628</u>
Total minimum lease payments	\$ 36,014
Less: amount representing interest	(138)
Present value of minimum lease payments	<u>\$ 35,876</u>

17. OPERATING LEASE - LEASEE DISCLOSURE

The School has entered into an operating lease for the period August 1, 1999 through July 31, 2003 with "Hillenbrand/Zaleski Secor, LLC" to lease a school facility. Payments made totaled \$116,643 for the year.

The following is a schedule of the future minimum payments required under the operating lease as of June 30, 2000.

<u>Year Ending June 30,</u>	
2001	\$ 181,235
2002	181,235
2003	181,235
2004	<u>15,103</u>
Total minimum lease payments	<u>\$558,808</u>

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

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

The School accumulated a deficit of \$6,231 for the year ended June 30, 2000, and had an operating loss of \$252,841. The School is analyzing operations and admissions procedures to determine appropriate steps to alleviate the deficit and operating losses. Management plans to eliminate the deficit and operating losses with the following actions:

- A) The School has formed a Development Committee of Board members and a Development Director position for an individual to market the School and generate funds through a broad range of activities to meet the financial needs of the School. The individual is responsible for all aspects of fund raising including the capital campaign, annual fund, major special events, mail solicitation and grant proposals. The fund raising efforts have raised \$53,725 in pledges and have received \$54,641 in contributions as of February 28, 2001.

TOLEDO SCHOOL FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)

18. MANAGEMENT'S PLANS REGARDING ACCUMULATED DEFICIT (continued)

- B) The School has applied for grants from the Federal Government through the Ohio Department of Education. The School filed a Consolidated Local Plan late in year 2001 and has been awarded to receive \$ 23,000 in Title I funds, \$ 500 in Title II funds, \$ 4,000 in Title IV funds, \$1,900 in Title VI-B funds, \$ 2,000 in Title VI-R funds and \$ 4,000 in Title VI funds.
- C) The School has been awarded \$23,600 for SchoolNet grants.
- D) The School has arranged for a voluntary consultant to come in to the School to assess the use of facilities, monies and personnel. The consultant is being utilized to focus on educational grants available to the School. The consultant is reviewing the budget for year 2002 for ways to reduce expenses and increase operational efficiency.
- E) The School has entered into a line-of-credit note, as identified in Note 15, to meet operating expenses.

19. CHANGES IN CONTRIBUTED CAPITAL

During the year, \$87,924 of contributed capital was made by Hillenbrand/Zaleski Company, for construction charges donated to the School.

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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, 2000, and have issued our report thereon dated March 29, 2001. Our report expressed substantial doubt as to the ability of the School to continue as a going concern. We conducted our audit in accordance with generally accepted auditing standards 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2000-10148-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the School in a separate letter dated March 29, 2001.

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. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2000-10148-002.

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 do consider the reportable condition described above, item 2000-10148-002, to be a material weakness. We also noted another matter involving the internal control over financial reporting that did not require inclusion in this report, that we have reported to management of the School in a separate letter dated March 29, 2001.

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

Jim Petro
Auditor of State

March 29, 2001

**TOLEDO SCHOOL FOR THE ARTS
SCHEDULE OF FINDINGS
FOR THE Year ENDED JUNE 30, 2000**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2000-10148-001

Noncompliance Citation for Debt

Community Schools may issue debt. However, if the debt obligates or is secured by the 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, 2000, 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) would apply.

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

FINDING NUMBER 2000-10148-002

Material Weakness

Fixed Assets

The following control weaknesses over fixed assets exist:

- ✓ The School has not developed a fixed asset accounting system which maintains total fixed asset listings, by location, with tag identification numbers and other supplemental information.
- ✓ The School has not developed and implemented procedures to assist in recording assets as additions when purchased, and deletions when disposed of throughout the year.
- ✓ The School has not implemented procedures to perform periodic 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 employ adequate controls over the acquisition, disposal and recording of fixed assets could result in misappropriation of assets and misstatements of recorded assets.

To establish 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 the 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 creating a master fixed asset listing.

FINDING NUMBER 2000-10148-002 (continued)

Material Weakness (continued)

Fixed Assets (continued)

- ✓ The School develop 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. The assets in each location should be compared to the listing provided, and any assets no longer used should be deleted and any assets not included on the listing should be added. This master listing of all assets can be then reconciled to the balance sheet and note disclosure amounts.



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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
MAY 29, 2001**