

**TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005



Mary Taylor, CPA
Auditor of State

January 12, 2007

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 8, 2007. Thus, I am certifying this audit report for release under the signature of my predecessor.

Mary Taylor

MARY TAYLOR, CPA
Auditor of State

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**Auditor of State
Betty Montgomery**

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 LublinSussman Group, LLP, for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

January 2, 2007

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TOLEDO SCHOOL FOR THE ARTS

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LublinSussman Group LLP
Certified Public Accountants

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Toledo, Ohio 43615-1572
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INDEPENDENT AUDITOR'S REPORT

Toledo School for the Arts
Lucas County
333 14th Street
Toledo, OH 43624

To the Governing Board:

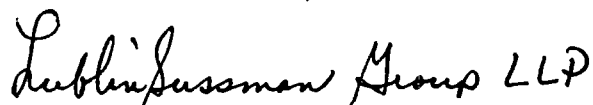
We have audited the accompanying financial statements of Toledo School for the Arts, Lucas County, Ohio, (the School), as of and for the year ended June 30, 2005, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the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

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

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

In accordance with Government Auditing Standards, we have also issued our report dated October 26, 2006 on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in conjunction with this report in considering the results of our audit.

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


October 26, 2006
Toledo, Ohio

www.lublinsussman.com

Douglas J. Welch, CPA, CVA
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American Institute of Certified Public Accountants
AICPA-Private Companies Practice Section
Ohio Society of Certified Public Accountants

**TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY**

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

The discussion and analysis of Toledo School for the Arts' (the School) financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the School's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

- Total Assets were \$2,502,268. Total assets increased \$2,315,062. This increase was due to the purchase of their facility during the year.
- Total Liabilities were \$2,626,362. Total liabilities increased \$2,146,030. This increase was due to the loans incurred in connection with the purchase of their facility.
- Total change in net assets was \$169,032. This increase was due to an increase in contributions related to a capital campaign.

Using this Annual Financial Report

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

Reporting the School as a Whole

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

These two statements report the School's net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the School's financial health or financial position. Over time, increases or decreases in the

**TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY**

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

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

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

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

Table 1
Net Assets

| | 2005 | 2004 |
|---------------------------------|---------------------|---------------------|
| Assets | | |
| Current Assets | \$ 111,060 | \$ 77,680 |
| Restricted Pledges Receivable | 55,756 | 0 |
| Capital Assets, Net | 2,335,452 | 109,526 |
| <i>Total Assets</i> | <u>\$ 2,502,268</u> | <u>\$ 187,206</u> |
| Liabilities | | |
| Current Liabilities | \$ 539,057 | \$ 364,769 |
| Noncurrent Liabilities | 2,087,305 | 115,563 |
| <i>Total Liabilities</i> | <u>2,626,362</u> | <u>480,332</u> |
| Net Assets | | |
| Invested in Capital Assets | 197,898 | 102,450 |
| Restricted for Capital Projects | 55,756 | 0 |
| Restricted for Music Technology | 37,265 | 0 |
| Restricted for Grants | 0 | 14,147 |
| Restricted for Scholarship | 0 | 500 |
| Unrestricted | (415,013) | (410,223) |
| <i>Total Net Assets</i> | <u>\$ (124,094)</u> | <u>\$ (293,126)</u> |

Total assets increased by \$2,315,062, which represents a 1,236.64 percent increase from fiscal year 2004. Total liabilities increased by \$2,146,030, which represents a 446.78 percent increase from 2004. The School's net assets increased by \$169,032.

**TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY**

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

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

Table 2
Change in Net Assets

| | 2005 | 2004 |
|--|-------------------|--------------------|
| Revenues | | |
| Operating Revenues: | | |
| Foundation Payments | \$ 2,064,024 | \$ 1,767,346 |
| Disadvantaged Pupil Impact Aid | 13,236 | 15,048 |
| Career Tech Adult Education | 103,239 | 81,158 |
| Special Education | 20,657 | 29,572 |
| Food Services | 61,455 | 2,254 |
| Classroom Fees | 15,494 | 27,221 |
| Other Operating Revenues | 23,839 | 60,745 |
| Non-Operating Revenues: | | |
| Federal and State Grants | 286,132 | 187,282 |
| Other Grants | 0 | 12,500 |
| Contributions and Donations | 425,619 | 64,823 |
| Interest | 212 | 166 |
| In-Kind Contributions | 0 | 6,904 |
| Other Revenue | 0 | 1,650 |
| Total Revenues | 3,013,907 | 2,256,669 |
| Expenses | | |
| Operating Expenses | | |
| Salaries | 1,466,778 | 1,267,973 |
| Fringe Benefits | 391,899 | 323,008 |
| Purchased Services | 541,695 | 350,081 |
| Materials and Supplies | 182,045 | 129,558 |
| Depreciation | 84,206 | 127,141 |
| Other Expenses | 93,694 | 72,286 |
| Non-Operating Expenses: | | |
| In-Kind Expenses | 0 | 6,904 |
| Interest and Fiscal Charges | 84,558 | 14,806 |
| Loss on Disposal of Capital Assets | 0 | 32,568 |
| Total Expenses | 2,844,875 | 2,324,325 |
| Increase/(Decrease) in Net Assets | \$ 169,032 | \$ (67,656) |

**TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY**

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

There was an increase in revenues of \$757,238 and an increase in expenses of \$520,550 from fiscal year 2004. Of the increase in revenues, the foundation payments increased by \$296,678 and contributions and donations increased by \$366,796. Community Schools receive no support from tax revenues.

The expense for salaries increased by \$198,805 and the expense for fringe benefits increased by \$68,891 from fiscal year 2004. This was primarily due to an increase in staff throughout the 2005 school year. Purchased services and material and supplies expense increased by \$244,101 from 2004. Due to the increase in state foundation revenues, additional services and supplies were purchased. Depreciation expense decreased by \$42,935.

Accumulated Deficit and Operating Loss

The Net Assets deficit of \$124,094 was decreased by \$169,032 from fiscal year 2004. The decrease in the deficit was due to the increase in state foundation receipts, contributions, and donations. The School is continuing to analyze operations and admissions procedures to alleviate the remaining deficit.

Capital Assets

At the end of fiscal year 2005 the School had \$2,609,379 (net of \$273,927 in accumulated depreciation) invested in buildings, improvements, furniture and equipment. Table 3 shows fiscal year 2005 balances compared to fiscal year 2004:

| Capital Asset at June 30, 2005 (Net of Depreciation) | | |
|---|--------------|-----------|
| | 2005 | 2004 |
| Land | \$ 58,300 | \$0 |
| Buildings | 2,135,582 | 0 |
| Improvements Other than Buildings | 55,852 | 0 |
| Furniture, Fixtures, and Equipment | 85,718 | 63,932 |
| Construction-In-Progress | 0 | 45,594 |
| Totals | \$ 2,335,452 | \$109,526 |

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

**TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY**

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

Debt

At June 30, 2005 the School had \$2,140,945 in outstanding debt, \$53,640 of which is due within one year. Table 4 summarizes the debt outstanding.

Table 4
Outstanding Debt at Year End

| | <u>2005</u> | <u>2004</u> |
|------------------------|---------------------|------------------|
| Capital Leases Payable | \$ 9,145 | \$ 7,076 |
| Notes Payable | <u>2,131,800</u> | <u>228,312</u> |
| Total Outstanding Debt | <u>\$ 2,140,945</u> | <u>\$235,388</u> |

For more information on debt see Notes 14 and 15 to the basic financial statements.

Current Financial Issues

The School's financial relationship with the Lucas County Educational Service Center aids in the raising of the quality of financial records and strengthens internal controls. During the 2004-2005 school year, there were approximately 363 students enrolled in the School. The School receives its finances mostly from state aid. Per pupil aid for fiscal year 2005 amounted to \$5,058 per student.

Contacting the School's Financial Management

This financial report is designed to provide our citizen's with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional information contact Ms. Kelly Allred of the Toledo School for the Arts, 333 14th St., Toledo, Ohio 43624 or e-mail at tsfa_ka@nwoca.org.

**TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY**

**STATEMENT OF NET ASSETS
AS OF JUNE 30, 2005**

Assets:

Current Assets:

| | |
|---------------------------------------|----------------|
| Cash and Cash Equivalents (Note 2) | \$ 95,461 |
| Intergovernmental Receivable (Note 4) | 14,891 |
| Prepaid Items | 708 |
| Total Current Assets | <u>111,060</u> |

Noncurrent Assets:

| | |
|--|---------------------|
| Restricted Pledges Receivable (Note 4) | 55,756 |
| Capital Assets, Net (Note 5) | <u>2,335,452</u> |
| Total Noncurrent Assets | <u>2,391,208</u> |
| Total Assets | <u>\$ 2,502,268</u> |

Liabilities:

Current Liabilities:

| | |
|--------------------------------------|----------------|
| Accounts Payable | \$ 113,353 |
| Interest Payable | 8,796 |
| Accrued Wages and Benefits Payable | 205,752 |
| Intergovernmental Payable | 111,019 |
| Deferred Revenue | 45,061 |
| Due to Students | 1,436 |
| Capital Lease Payable (Notes 14, 15) | 3,071 |
| Notes Payable (Note 14) | <u>50,569</u> |
| Total Current Liabilities | <u>539,057</u> |

Noncurrent Liabilities:

| | |
|--------------------------------------|------------------|
| Capital Lease Payable (Notes 14, 15) | 6,074 |
| Notes Payable (Note 14) | <u>2,081,231</u> |
| Total Noncurrent Liabilities | <u>2,087,305</u> |
| Total Liabilities | <u>2,626,362</u> |

Net Assets:

| | |
|---|---------------------|
| Invested in Capital Assets, Net of Related Debt | 197,898 |
| Restricted for Capital Projects (Note 4) | 55,756 |
| Restricted for Music Technology | 37,265 |
| Unrestricted | <u>(415,013)</u> |
| Total Net Assets | <u>\$ (124,094)</u> |

See Accompanying Notes to the Basic Financial Statements

**TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY**

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

| | |
|---|----------------------------|
| <u>Operating Revenues:</u> | |
| Foundation Payments | \$ 2,064,024 |
| Disadvantaged Pupil Impact Aid | 13,236 |
| Career Tech Adult Education | 103,239 |
| Special Education | 20,657 |
| Food Services | 61,455 |
| Classroom Fees | 15,494 |
| Other Operating Revenues | 23,839 |
| Total Operating Revenues | <u>2,301,944</u> |
| <u>Operating Expenses:</u> | |
| Salaries | 1,466,778 |
| Fringe Benefits | 391,899 |
| Purchased Services (Note 13) | 541,695 |
| Materials and Supplies | 182,045 |
| Depreciation | 84,206 |
| Other Operating Expenses | 93,694 |
| Total Operating Expenses | <u>2,760,317</u> |
| Operating Loss | <u>(458,373)</u> |
| <u>Non-Operating Revenues and Expenses:</u> | |
| Grants - Federal | 243,411 |
| Grants - State | 42,721 |
| Contributions and Donations | 425,619 |
| Interest | 212 |
| Interest and Fiscal Charges | (84,558) |
| Total Non-Operating Revenues | <u>627,405</u> |
| Change in Net Assets | 169,032 |
| Net Assets at Beginning of Year | <u>(293,126)</u> |
| Net Assets at End of Year | <u><u>\$ (124,094)</u></u> |

See Accompanying Notes to the Basic Financial Statements

**TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY**

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

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

| | |
|---|------------------|
| Cash Received from State of Ohio | \$ 2,230,230 |
| Cash Received from Food Services | 61,455 |
| Cash Received from Classroom Fees | 46,529 |
| Cash Received from Other Operating Sources | 106,104 |
| Cash Payments to Suppliers for Goods and Services | (819,112) |
| Cash Payments to Employees for Services | (1,439,262) |
| Cash Payments for Employee Benefits | (334,235) |
| Net Cash Used for Operating Activities | <u>(148,291)</u> |

Cash Flows from Noncapital Financing Activities:

| | |
|--|----------------|
| Cash Received from Operating Grants - State | 257,900 |
| Cash Received from Operating Grants - Federal | 42,721 |
| Cash Received from Private Grants | 10,000 |
| Cash Received Contributions and Donations | 291,563 |
| Net Cash Provided by Noncapital Financing Activities | <u>602,184</u> |

Cash Flows from Capital and Related Financing Activities:

| | |
|--|------------------|
| Cash Received from Proceeds from Loans | 169,391 |
| Cash Payments for Capital Acquisitions | (408,759) |
| Cash Payments for Principal Payments | (65,024) |
| Cash Payments for Interest Payments | (75,762) |
| Net Cash Used for Capital and Related Financing Activities | <u>(380,154)</u> |

Cash Flows from Investing Activities:

| | |
|--|------------------|
| Cash Received from Interest on Investments | <u>212</u> |
| Net Cash Provided by Investing Activities | <u>212</u> |
| Net Increase in Cash and Cash Equivalents | 73,951 |
| Cash and Cash Equivalents at Beginning of Year | <u>21,510</u> |
| Cash and Cash Equivalents at End of Year | <u>\$ 95,461</u> |

See Accompanying Notes to the Basic Financial Statements

**TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY**

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

Reconciliation of Operating Loss
to Net Cash Used for Operating Activities:

| | |
|----------------|--------------|
| Operating Loss | \$ (458,373) |
|----------------|--------------|

Adjustments to Reconcile Operating Loss
to Net Cash Used for Operating Activities:

| | |
|--|---------------------|
| Depreciation | 79,746 |
| Changes in Assets and Liabilities: | |
| Decrease in Prepaid Items | 1,034 |
| Increase in Accounts Payable | 98,458 |
| Increase in Accrued Wages Payable and Benefits Payable | 30,408 |
| Increase in Due to Students | 603 |
| Increase in Deferred Revenue | 45,061 |
| Increase in Intergovernmental Payable | 54,772 |
| Total Adjustments | <u>310,082</u> |
| Net Cash Used for Operating Activities | <u>\$ (148,291)</u> |

Noncash Capital and Related Financing Activities

| | |
|---|--------------|
| Capital Assets Acquired Through Financing | \$ 1,768,267 |
| Capital Asset Acquired Through Contribution | \$ 58,300 |
| Principal Payments Made Through Financing | \$ 229,233 |

See Accompanying Notes to the Basic Financial Statements

**TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

1. DESCRIPTION OF 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 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. The School encompasses a safe community environment, discovery-based methods, parenting education, critical thinking, and problem solving. The School's programs are currently available to students in grades 6-12. 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 re-approved for operation under a contract with the Toledo City School District (the Sponsor) for a period of five years commencing July 1, 2003. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The School entered into a separate agreement with the Treasurer of Lucas County Educational Service Center to serve as the Chief Fiscal 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 12 non-certified and 42 certified full time teaching personnel who provide services to 363 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 a governmental nonprofit organization. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities, provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of the School's accounting policies.

**TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005 (CONTINUED)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Basis of Presentation

The School's basic financial statements consist of a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. The School uses enterprise accounting to track and report on its financial activities. Enterprise fund reporting focuses on the determination of the change in net assets, financial position, and cash flows.

B. Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statements of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flow reflects how the School finances and meets its cash flow needs.

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 five-year forecast, which is to be updated annually.

D. Cash and Investments

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

For purposes of the statement of cash flows and the presentation on the financial statements, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

E. Capital Assets and Depreciation

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School maintains a capitalization threshold of \$500. The School does not possess any infrastructure.

**TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005 (CONTINUED)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Capital Assets and Depreciation (Continued)

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

| <u>Description</u> | <u>Estimated Lives</u> |
|-----------------------------------|------------------------|
| Buildings | 50 |
| Improvements Other than Buildings | 15 |
| Furniture and Equipment | 5 |

F. Intergovernmental Revenue

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

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

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

G. Prepaid Items

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

H. Net Assets

Net assets represent the difference between assets and liabilities. Invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors or regulations of other governments. The School had restricted net assets for capital projects and music technology at June 30, 2005.

**TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005 (CONTINUED)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Estimates

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

J. Operating Revenues and Expenses

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

K. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The School's financial statements are prepared using the accrual basis of accounting.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

Expenses are recognized at the time they are incurred.

**TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

3. DEPOSITS

At June 30, 2005, the carrying amount of the School's deposits was \$95,461 and the bank balance was \$190,603. Of the bank balance, \$100,000 was covered by federal depository insurance and \$90,603 was collateralized with securities held in a single financial institution's pool of investments pledged to collateralize all public deposits. Although the securities serving as collateral were held by the pledging financial institution's trust department in the School's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School to a successful claim by the Federal Deposit Insurance Corporation.

4. RECEIVABLES

Receivables at June 30, 2005 consisted of intergovernmental receivables arising from grants, entitlement and shared revenues, and pledge receivables from donors restricted for capital projects. All receivables are considered collectable in full.

Intergovernmental receivables consisted of the following at June 30, 2005:

| <u>Receivables</u> | <u>Amount</u> |
|-------------------------------------|------------------|
| Intergovernmental | |
| IDEA-B '05 | \$ 6,268 |
| Title IIA '05 | <u>8,623</u> |
| Total Intergovernmental Receivables | <u>\$ 14,891</u> |

Restricted unconditional promises to give consisted of the following at June 30, 2005:

| | <u>Amount</u> |
|--------------------------------------|----------------|
| Receivable in Less than One Year | \$ 31,662 |
| Receivable in One to Five Years | <u>29,460</u> |
| Total Unconditional Promises to Give | 61,122 |
| Less: Discount to Present Value | <u>(5,366)</u> |
| Net Unconditional Promises to Give | \$ 55,756 |

The discount rate used on long-term promises to give was 6.25%.

**TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005 (CONTINUED)**

5. CAPITAL ASSETS

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

| | | | | |
|---|-------------------|---------------------|------------------|---------------------|
| Construction in Progress | \$45,594 | \$0 | \$45,594 | \$0 |
| Land | 0 | 58,300 | 0 | 58,300 |
| Capital Assets Being Depreciated | | | | |
| Buildings | 0 | 2,179,217 | 0 | 2,179,217 |
| Improvements Other than Buildings | 0 | 59,842 | 0 | 59,842 |
| Furniture, Fixtures, and Equipment | 253,653 | 58,367 | 0 | 312,020 |
| Total Capital Assets Being Depreciated | <u>253,653</u> | <u>2,297,426</u> | <u>0</u> | <u>2,551,079</u> |
| Less Accumulated Depreciation: | | | | |
| Buildings | 0 | (43,635) | 0 | (43,635) |
| Improvements Other than Buildings | 0 | (3,990) | 0 | (3,990) |
| Furniture, Fixtures, and Equipment | <u>(189,721)</u> | <u>(36,581)</u> | <u>0</u> | <u>(226,302)</u> |
| Total Accumulated Depreciation | <u>(189,721)</u> | <u>(84,206)</u> | <u>0</u> | <u>(273,927)</u> |
| Total Capital Assets Being Depreciated, Net | <u>63,932</u> | <u>2,213,220</u> | <u>0</u> | <u>2,277,152</u> |
| Total Capital Assets, Net of Accum. Dep. | <u>\$ 109,526</u> | <u>\$ 2,271,520</u> | <u>\$ 45,594</u> | <u>\$ 2,335,452</u> |

**TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005 (CONTINUED)**

6. 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 fiscal year ended 2005, the School had contracted Philadelphia Insurance Company for the following insurance coverage:

| | | |
|---|----|-----------|
| General Liability per Occurrence | \$ | 2,000,000 |
| General Liability Aggregate | | 2,000,000 |
| Personal/Advertising Injury Limit | | 1,000,000 |
| Commercial Excess Liability per Occurrence | | 1,000,000 |
| Commercial Excess Liability Aggregate | | 1,000,000 |
| EDP Hardware (\$500 Deductible) | | 45,000 |
| EDP Software (\$500 Deductible) | | 4,500 |
| Miscellaneous Scheduled Property (\$500 Deductible) | | 2,200 |
| Commercial Automobile Coverage | | 1,000,000 |
| Employee Dishonesty – Blanket (\$500 Deductible) | | 10,000 |
| Forgery & Alteration (\$500 Deductible) | | 10,000 |
| Business Personal Property | | 900,000 |
| Ohio Stop Gap Liability | | 1,000,000 |
| Employee Benefits Liability (\$1,000 Deductible) | | 1,000,000 |
| Director's & Officer's Liability (\$2,500 Deductible) | | 1,000,000 |

Settled claims have not exceeded this commercial coverage in the past three years. The School owns the third and fourth floors of the facility located at 333 14th Street, Toledo, Ohio 43624 to house its operations.

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 an independent agent 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). Employees electing the family coverage pay the difference in the premiums.

**TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005 (CONTINUED)**

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salary and the School was required to contribute an actuarially determined rate. The employer rate for fiscal year 2005 was 14 percent of annual covered payroll; 10.57 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School's required contribution for pension obligations to SERS for the fiscal years ending June 30, 2005, 2004, and 2003 were \$31,675, \$12,218, and \$6,110, respectively; 78.52 percent has been contributed for fiscal year 2005, and 100 percent for fiscal years 2004 and 2003. \$6,804 represents the unpaid contribution for fiscal year 2005. The balance outstanding is reflected as an intergovernmental payable.

B. State Teachers Retirement Systems

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

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

**TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005 (CONTINUED)**

7. DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. State Teachers Retirement Systems (Continued)

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

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

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

Eligible faculty of Ohio’s public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan.

**TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005 (CONTINUED)**

7. DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. State Teachers Retirement Systems (Continued)

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

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

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

A Defined Benefit or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC, or Combined Plans. Various other benefits are available to members' beneficiaries.

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

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. The School's required contribution for pension obligations for the fiscal years ended June 30, 2005, 2004, and 2003 were \$228,052, \$164,484, and \$112,632, respectively; 85.88 percent has been contributed for fiscal year 2005 and 100 percent has been contributed for fiscal years 2004 and 2003. \$32,206 represents the unpaid contribution for fiscal year 2005. The balance outstanding is reflected as an intergovernmental payable.

**TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005 (CONTINUED)**

7. DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. State Teachers Retirement Systems (Continued)

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

8. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2005, the healthcare allocation is 3.43 percent. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2005 were \$178,221,113 and the target level was \$267.3 million. At June 30, 2004, the Retirement System's net assets available for payment of health care benefits of \$267.5 million. The number of recipients currently receiving health care benefits is approximately 58,000.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For fiscal year June 30, 2005, the Board allocated employer contributions equal to 3.43 percent of covered payroll and adding the surcharge due to the Health Care Reserve Fund. For the School, the amount to fund health care benefits, including surcharge, equaled \$35,476 for the fiscal year ended June 30, 2005.

**TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005 (CONTINUED)**

8. POSTEMPLOYMENT BENEFITS (CONTINUED)

B. State Teachers Retirement System

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

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

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For fiscal year June 30, 2005, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$12,228 for the fiscal year ended June 30, 2005.

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

9. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation are derived from policies and procedures approved by the Governing Board.

10. STATE SCHOOL FUNDING DECISION

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

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

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

**TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005 (CONTINUED)**

11. CONTINGENCIES

A. Grants

The School receives significant financial assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the School. However, in the opinion of management, any such disallowed claims will not have a material effect on the overall financial position of the School at June 30, 2005.

B. Pending Litigation

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

The School is a defendant in a lawsuit involving breach of a lease agreement. The School has filed a counterclaim alleging breach of the lease by the plaintiff. The School is presently unable to determine the outcome and effect, if any, of this lawsuit in the accompanying financial statements.

C. School Funding

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. ODE has not yet conducted a review of the School's 2005 student enrollment data and FTE calculations. For fiscal year 2005, the School does not anticipate revenue adjustments based on the results of any such review.

**TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005 (CONTINUED)**

12. FISCAL AGENT

The School entered into the service agreement with the Treasurer of the Lucas County Educational Service Center to serve as the Chief Fiscal 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 allotment paid to the School from the State of Ohio. A total contract payment of \$48,615 was paid during the year, and a liability in the amount of \$4,407 was accrued as a liability for the fiscal year ended June 30, 2005.

The Treasurer shall perform all of the following functions while serving as the Chief Fiscal Officer of the School:

- Maintain custody of all funds received by the School in segregated accounts separate from Lucas County ESC or any other Community School's funds;
- Maintain all books and accounts of the School;
- Maintain all financial records of all state funds of the School and follow State Auditor procedures for receiving and expending state funds;
- Assist the School in meeting all financial reporting requirements established by the Auditor of Ohio;
- Invest funds of the School in the same manner as the funds of Lucas County ESC are invested, but the Treasurer shall not commingle the funds with any of Lucas County ESC or any other community school; and
- Pay obligations incurred by the School within a reasonable amount of time, not more than 14 calendar days after receipt of a properly executed voucher signed by the Chief Administrative Officer of the School so long as the proposed expenditure is within the approved budget and funds are available.

13. PURCHASED SERVICES

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

| | |
|-------------------------------------|-------------------|
| Professional and Technical Services | \$ 72,656 |
| Property Services | 187,209 |
| Travel Mileage/Meeting Expenses | 4,227 |
| Communications | 38,115 |
| Utilities | 97,246 |
| Contracted Craft or Trade Services | 115,224 |
| Tuition | 7,249 |
| Other Purchased Services | 19,769 |
| Total Purchased Services | <u>\$ 541,695</u> |

**TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005 (CONTINUED)**

14. DEBT

Debt outstanding for the School as of June 30, 2005 was as follows:

| Short-Term Debt | Balance 07/01/04 | Additions | Payments | Balance 06/30/05 | |
|-----------------------|---------------------|-----------------|------------------|---------------------|--|
| Line of Credit | \$0 | \$19,391 | \$16,000 | \$3,391 | |
| Note Payable #2 | 29,825 | 111 | 29,936 | 0 | |
| Note Payable #3 | 90,000 | 463 | 90,463 | 0 | |
| Capital Lease Payable | 7,076 | 0 | 6,483 | 593 | |
| Totals | \$126,901 | \$19,965 | \$142,882 | \$3,984 | |

| Long-Term Debt | Balance 07/01/04 | Additions | Payments | Balance 06/30/05 | Amount Due Within One Year |
|-----------------------|---------------------|--------------------|------------------|---------------------|----------------------------------|
| Stranahan Foundation | \$0 | \$150,000 | \$0 | \$150,000 | \$0 |
| Toledo Infocom LLC | 0 | 425,000 | 10,510 | 414,490 | 13,413 |
| Note Payable #4 | 0 | 1,250,000 | 0 | 1,250,000 | 25,039 |
| Note Payable #5 | 0 | 322,500 | 8,581 | 313,919 | 8,726 |
| Notes Payable #1 | 108,487 | 347 | 108,834 | 0 | 0 |
| Capital Lease Payable | 0 | 10,557 | 2,005 | 8,552 | 2,478 |
| Totals | \$108,487 | \$2,158,404 | \$129,930 | \$2,136,961 | \$49,656 |

The Note Payable #1 from Sky Bank is a promissory note issued for a line of credit issued on August 13, 1999, in the amount of \$200,000. The terms of the note had a maturity date of April 30, 2002. The note was extended and is now payable on October 30, 2004. The interest rate on the note is 5 percent. Total interest expense for the year ended June 30, 2005 was \$347. Although the note was paid in full during fiscal year 2005, a portion of the notes were paid by the acquisition of Note Payable #4 and #5.

The Note Payable #2 from Sky Bank is a promissory note issued on February 26, 2002, in the amount of \$30,000. The terms of the note had a maturity date of April 30, 2002. The note was extended and is now payable on August 26, 2004. The interest rate on the note is 5 percent. Total interest expense for the year ended June 30, 2005 was \$111. Although the note was paid in full during fiscal year 2005, a portion of the note was paid by the acquisition of Note Payable #4 and #5.

The Note Payable #3 from Sky Bank is a promissory note issued on August 13, 2003, in the amount of \$90,000. The terms of the note had a maturity date of July 15, 2004. The interest rate on the note is 5 percent. Total interest expense for the year ended June 30, 2005 was \$463. Although the note was paid in full during fiscal year 2005, a portion of the notes were paid by the acquisition of Notes Payable #4 and #5.

**TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

14. DEBT (CONTINUED)

The Toledo Infocom LLC loan was issued on July 22, 2004, in the amount of \$425,000 to acquire the third and fourth floors of the building located at 333 14th Street, Toledo Ohio and is secured by a mortgage on the building. The terms of the loan had a maturity date of August 1, 2019. A balloon payment of \$151,434 is due at the maturity date. The interest rate on this loan is 5 percent. Total interest expense for the year ended June 30, 2005 was \$17,538.

The Note Payable #4 from Sky Bank is a promissory note issued on July 22, 2004, in the amount of \$1,250,000 and is secured by a mortgage on the building. The terms of the note had a maturity date of November 3, 2019. The interest on this promissory note is variable and was 5.439 percent as of June 30, 2005. Total interest expense for the year ended June 30, 2005 was \$51,966.

The Note Payable #5 from Sky Bank is a promissory note issued on July 22, 2004, in the amount of \$322,500 and is secured by a mortgage on the building. The terms of the note had a maturity date of June 1, 2009. The interest on this promissory note is variable and was 5.11 percent as of June 30, 2005. Total interest expense for the year ended June 30, 2005 was \$12,299.

The line of credit from Sky Bank is an operating line of credit issued on July 22, 2004, in the amount of \$50,000 and is unsecured. The line of credit is payable on July 22, 2005. Interest on the line of credit is variable and was 6.25 percent as of June 30, 2005. Total interest expense for the year ended June 30, 2005 was \$681.

The loan from the Stranahan Foundation was issued on July 15, 2004, in the amount of \$150,000 and is unsecured. The terms of the loan had a maturity date of July 31, 2019. If the principal sum of \$150,000 is paid in full by July 31, 2009, there shall be no interest charged. Effective, August 1, 2009, an annual interest rate of prime minus one percent will be charged on the outstanding principal balance. There were no interest payments for fiscal year 2005.

The capital leases are described in a separate note.

The annual requirements to amortize the installment notes outstanding, based on the current interest rate, are as follows as of June 30, 2005:

| <u>Fiscal Year Ending</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------|---------------------|---------------------|---------------------|
| 2006 | \$ 50,569 | \$ 120,806 | \$ 171,375 |
| 2007 | 58,598 | 100,685 | 159,283 |
| 2008 | 49,013 | 98,117 | 147,130 |
| 2009 | 330,026 | 95,414 | 425,440 |
| 2010 | 44,683 | 78,485 | 123,168 |
| Thereafter | 1,598,970 | 638,841 | 2,237,811 |
| Total | <u>\$ 2,131,859</u> | <u>\$ 1,132,348</u> | <u>\$ 3,264,207</u> |

**TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

15. CAPITAL LEASE – LESSEE DISCLOSURE

The School entered into capitalized leases for the acquisition of copier equipment and musical instruments during 2000 and 2004, respectively. 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 minimum lease payments as of the inception date.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2005. Payments for principal and interest totaled \$6,483 for the fiscal year ending June 30, 2005.

| <u>Fiscal Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> |
|------------------------------------|------------------|-----------------|
| 2006 | \$ 3,071 | \$ 532 |
| 2007 | 2,070 | 407 |
| 2008 | 2,198 | 280 |
| 2009 | 2,334 | 144 |

16. OPERATING LEASE – LESSEE DISCLOSURE

The School entered into an operating lease with Toledo Infocom LLC for the use of the second floor of the building located at 333 14th Street, Toledo, Ohio 43624. The period commenced on August 1, 2004 and ends on July 31, 2014. The School shall have the right to renew the lease for three additional terms of five years each. Lease payments totaled \$24,042 for the year. At year-end, all rent owed to the lessor was paid in full.

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

| | |
|---------------|----------|
| June 30, 2006 | \$23,954 |
| June 30, 2007 | 23,954 |
| June 30, 2008 | 23,954 |
| June 30, 2009 | 23,954 |
| June 30, 2010 | 23,954 |

17. MANAGEMENT'S PLANS REGARDING ACCUMULATED DEFICIT

The School has a negative net asset balance of \$124,094 for the fiscal year ended June 30, 2005 and had an operating loss of \$458,373. However, the School reduced its negative net asset balance by \$169,032 from fiscal year 2004. The School continues to analyze operations, maximize admissions, and focus on alternate sources of funding in its plan. Based on the State of Ohio Educational funding, the School expects to annually experience an operating loss. Only through community support and grant funding will management be able to manage its net asset balances.

**TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005 (CONTINUED)**

18. RELATED PARTY TRANSACTION

Two of the School employees have spouses on the Governing Board. During the fiscal year ended June 30, 2005, the School paid these two employees \$31,023 and \$1,585 in wages and benefits.

19. SUBSEQUENT EVENT

On July 27, 2006, the School purchased the basement and first floor of their current building for \$900,000 to expand their facility. Debt of \$900,000 was incurred as part of this transaction.

**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 43624

To the Governing Board:

We have audited the financial statements of Toledo School for the Arts, Lucas County, Ohio, (the School) as of and for the year ended June 30, 2005, and have issued our report thereon dated October 26, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of the School in a separate letter dated October 26, 2006.

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

Rubler Sussman Group LLP

October 26, 2006
Toledo, Ohio



Mary Taylor, CPA
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
JANUARY 18, 2007**