TOLEDO SCHOOL FOR THE ARTS

LUCAS COUNTY

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

Mary Taylor, CPA
Auditor of State

Governing Board
Toledo School for the Arts
333 14th Street
Toledo, Ohio 43624

We have reviewed the *Independent Auditor's Report* of the Toledo School for the Arts, Lucas County, prepared by Lublin Sussman Group LLP, for the audit period July 1, 2005 through June 30, 2006. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 17, 2007

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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, 2006, 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, 2006, 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 March 26, 2007 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.

LublinSussman Group LLP

March 26, 2007
Toledo, Ohio

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TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
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, 2006. 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 $2,375,577. Total assets decreased $126,691. This decrease was due to the use of cash and collection of receivables, along with depreciation expense related to capital assets.
- Total Liabilities were $2,605,046. Total liabilities decreased $21,316. This decrease was due to principal payments on outstanding debt during the year.
- Total decrease in net assets was $105,375. This decrease was due to non-operating revenue being insufficient to cover an operating loss.

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 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 2006 compared to fiscal year 2005:

Table 1
Net Assets

	2006	2005
Assets		
Current Assets	$ 36,991	$ 111,060
Restricted Pledges Receivable	47,741	55,756
Capital Assets, Net	2,290,845	2,335,452
Total Assets	$ 2,375,577	$ 2,502,268
Liabilities		
Current Liabilities	$ 630,047	$ 539,057
Noncurrent Liabilities	1,974,999	2,087,305
Total Liabilities	2,605,046	2,626,362
Net Assets		
Invested in Capital Assets	203,215	197,898
Restricted for Capital Projects	47,741	55,756
Restricted for Other Purposes	11,707	37,265
Unrestricted	(492,132)	(415,013)
Total Net Assets	$ (229,469)	$ (124,094)

Total assets decreased by $126,691, which represents a 5.06 percent decrease from fiscal year 2005. Total liabilities decreased by $21,316, which represents a 0.71 percent decrease from 2005. The School's net assets decreased by $105,375.

Table 2 shows the changes in net assets for the year ended 2006 as compared to fiscal year 2005.

Table 2
Change in Net Assets

	2006	2005
Revenues		
Operating Revenues:		
Foundation Payments	$ 2,185,701	$ 2,064,024
Disadvantaged Pupil Impact Aid	39,239	13,236
Career Tech	85,250	103,239
Special Education	23,394	20,657
Food Services	40,064	61,455
Classroom Fees	70,104	15,494
Other Operating Revenues	47,744	23,839
Non-Operating Revenues:		
Federal and State Grants	285,527	286,132
Contributions and Donations	230,423	425,619
Interest	154	212
Total Revenues	3,007,600	3,013,907
Expenses		
Operating Expenses		
Salaries	1,604,200	1,466,778
Fringe Benefits	386,956	391,899
Purchased Services	599,923	541,695
Materials and Supplies	174,784	182,045
Depreciation	82,463	84,206
Capital Outlay	47,612	0
Other Expenses	89,926	93,694
Non-Operating Expenses:		
Interest and Fiscal Charges	127,111	84,558
Total Expenses	3,112,975	2,844,875
Increase (Decrease) in Net Assets	$ (105,375)	$ 169,032

There was a decrease in revenues of $6,307 and an increase in expenses of $268,100 from fiscal year 2005. Of the decrease in revenues, the foundation payments increased by $121,677 and classroom fees increased by $54,610. These increases can be attributed to an increase in the number of students from fiscal year 2005. The increases in revenue were offset by a decrease in contributions and donations of $195,196. The School held a large capital campaign in fiscal year 2005. Community Schools receive no support from tax revenues.

Expenses for salaries increased by $137,422 and the expense from fringe benefits decreased by $4,943 from fiscal year 2005. The salary increase was due to an increase in staff throughout the 2006 school year. Fringe benefits decreased due to a reduction in the School Employees Retirement System of Ohio surcharge. Purchased services increased by $58,228 due to additional services acquired. Interest and fiscal charges increased by $42,553 from 2005. This increase reflects the interest on loans in connection with the School's purchase of its facility in the prior year.

Accumulated Deficit and Operating Loss

The Net Assets deficit of $229,469 increased by $105,375 from fiscal year 2005. The increase in the deficit was due to the increase in salaries and other expenses related to the growing student population, along with a decrease in revenues from 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 2006 the School had $2,290,845 (net of $356,390 in accumulated depreciation) invested in buildings, improvements, furniture and equipment . Table 3 shows fiscal year 2006 balances compared to fiscal year 2005:

Table 3
Capital Assets at June 30, 2006
(Net of Depreciation)

	2006	2005
Land	$ 58,300	$ 58,300
Buildings	2,091,998	2,135,582
Improvements Other than Buildings	72,071	55,852
Furniture, Fixtures, and Equipment	68,476	85,718
Construction-in-Progress	0	0
Totals	$ 2,290,845	$ 2,335,452

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

Debt

At June 30, 2006 the School had $2,135,621 in outstanding debt, $160,622 of which is due within one year. Table 4 summarizes the debt outstanding.

Table 4
Outstanding Debt at Year End

	2006	2005
Capital Leases Payable	$ 6,602	$ 9,145
Notes Payable	2,081,028	2,128,409
Line of Credit	47,991	3,391
Total Outstanding Debt	$ 2,135,621	$ 2,140,945

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 2005-2006 school year, there were approximately 373 students enrolled in the School. The School receives its finances mostly from state aid. Per pupil aid for fiscal year 2006 amounted to $5,283 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. Kelley Allred of the Toledo School for the Arts, 333 14th St., Toledo, Ohio 43604 or e-mail at kallred@ts4arts.org.

TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2006

Assets:	
Current Assets:	
Cash and Cash Equivalents (Note 2)	$ 35,226
Accounts Receivable	328
Intergovernmental Receivable (Note 4)	1,437
Total Current Assets	36,991
Noncurrent Assets:	
Restricted Pledges Receivable (Note 4)	47,741
Capital Assets, Net (Note 5)	2,290,845
Total Noncurrent Assets	2,338,586
Total Assets	$ 2,375,577
Liabilities:	
Current Liabilities:	
Accounts Payable	$ 153,473
Interest Payable	8,796
Accrued Wages and Benefits Payable	218,132
Intergovernmental Payable	50,233
Deferred Revenue	36,474
Due to Students	2,317
Capital Lease Payable (Notes 14, 15)	2,070
Notes Payable (Note 14)	158,552
Total Current Liabilities	630,047
Noncurrent Liabilities:	
Capital Lease Payable (Notes 14, 15)	4,532
Notes Payable (Note 14)	1,970,467
Total Noncurrent Liabilities	1,974,999
Total Liabilities	2,605,046
Net Assets:	
Invested in Capital Assets, Net of Related Debt	203,215
Restricted for Capital Projects (Note 4)	47,741
Restricted for Other Purposes	11,707
Unrestricted	(492,132)
Total Net Assets	$ (229,469)

See Notes to Financial Statements

TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006

Operating Revenues:	
Foundation Payments	$ 2,185,701
Disadvantaged Pupil Impact Aid	39,239
Career Tech	85,250
Special Education	23,394
Food Services	40,064
Classroom Fees	70,104
Other Operating Revenues	47,744
Total Operating Revenues	2,491,496
Operating Expenses:	
Salaries	1,604,200
Fringe Benefits	386,956
Purchased Services (Note 13)	599,923
Materials and Supplies	174,784
Depreciation	82,463
Capital Outlay	47,612
Other Operating Expenses	89,926
Total Operating Expenses	2,985,864
Operating Loss	(494,368)
Non-Operating Revenues and Expenses:	
Grants - Federal	257,975
Grants - State	27,552
Contributions and Donations	230,423
Interest	154
Interest and Fiscal Charges	(127,111)
Total Non-Operating Revenues	388,993
Change in Net Assets	(105,375)
Net Assets at Beginning of Year	(124,094)
Net Assets at End of Year	$ (229,469)

See Notes to Financial Statements

TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2006

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities:	
Cash Received from State of Ohio	$ 2,322,385
Cash Received from Food Services	40,064
Cash Received from Classroom Fees	72,715
Cash Received from Other Operating Sources	70,491
Cash Payments to Suppliers for Goods and Services	(898,746)
Cash Payments to Employees for Services	(1,584,396)
Cash Payments for Employee Benefits	(449,702)
Net Cash Used for Operating Activities	(427,189)
Cash Flows from Noncapital Financing Activities:	
Cash Received from Proceeds of Loans	64,000
Cash Payments for Principal Payments	(19,400)
Cash Received from Operating Grants - Federal	271,101
Cash Received from Operating Grants - State	27,552
Cash Received Contributions and Donations	238,438
Net Cash Provided by Noncapital Financing Activities	581,691
Cash Flows from Capital and Related Financing Activities:	
Cash Payments for Capital Acquisitions	(37,856)
Cash Payments for Principal Payments	(49,924)
Cash Payments for Interest Payments	(127,111)
Net Cash Provided by Noncapital Financing Activities	(214,891)
Cash Flows from Investing Activities:	
Cash Received from Interest on Investments	154
Net Increase in Cash and Cash Equivalents	(60,235)
Cash and Cash Equivalents at Beginning of Year	95,461
Cash and Cash Equivalents at End of Year	$ 35,226

See Notes to Financial Statements

TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2006 (CONTINUED)

Reconciliation of Operating Loss	
Net Cash Used for Operating Activities:	
Operating Loss	$ (494,368)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation	82,463
Changes in Assets and Liabilities:	
Decrease in Prepaid Items	708
Increase in Accounts Payable	40,120
Increase in Accrued Wages Payable and Benefits Payable	12,380
Increase in Due to Students	881
Decrease in Deferred Revenue	(8,587)
Decrease in Intergovernmental Payable	(60,786)
Total Adjustments	67,179
Net Cash Used for Operating Activities	$ (427,189)

See Notes to Financial Statements

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 12).

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 11 non-certified and 48 certified full time teaching personnel who provide services to 373 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 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 $5,000.

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 live of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Estimated Lives
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, the State Career Tech, 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, 2006, 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. There were no prepaid items at June 30, 2006.

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 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 other purposes at June 30, 2006.

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.

3. DEPOSITS AND INVESTMENTS

A. Deposits with Financial Institutions

At June 30, 2006, the carrying amount of the School's deposits was $35,226 and the bank balance was $78,375. All of the school's bank balance was covered by the Federal Depository Insurance Corporation.

3. DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial credit risk is the risk that, in the event of bank failure, the School will not be able to recover deposits or collateral securities that are in the possession of an outside party. The School has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

4. RECEIVABLES

Receivables at June 30, 2006 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, 2006:

Receivables	Amount
Intergovernmental:	
Title IIA '06	1,437
Total Intergovernmental Receivables	$ 1,437

Restricted unconditional promises to give consisted of the following at June 30, 2006:

	Amount
Receivable in Less than One Year	$ 49,486
Receivable in One to Five Years	500
Total Unconditional Promises to Give	49,986
Less: Discount to Present Value	(2,245)
Net Unconditional Promises to Give	$ 47,741

The discount rate used on long-term promises to give was 8.25%.

5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Land	$ 58,300	$ 0	$ 0	$ 58,300
Capital Assets Being Depreciated				
Buildings	2,179,217	0	0	2,179,217
Improvements Other than Buildings	59,842	21,198	0	81,040
Furniture, Fixtures, and Equipment	312,020	16,658	0	328,678
Total Capital Assets Being Depreciated	2,551,079	37,856	0	2,588,935
Less Accumulated Depreciation:				
Buildings	(43,635)	(43,584)	0	(87,219)
Improvements Other than Buildings	(3,990)	(4,979)	0	(8,969)
Furniture, Fixtures, and Equipment	(226,302)	(33,900)	0	(260,202)
Total Accumulated Depreciation	(273,927)	(82,463)	0	(356,390)
Total Capital Assets Being Depreciated, Net	2,277,152	(44,607)	0	2,232,545
Total Capital Assets, Net of Accum. Dep.	$ 2,335,452	$ (44,607)	$ 0	$ 2,290,845

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 2006, 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)	1,500
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 43604 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 30 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.

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, 2006, 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 2006 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, 2006, 2005, and 2004 were $16,396, $31,675 and $12,218, respectively; 51.01% has been contributed for fiscal year 2006, and 100% for fiscal years 2005 and 2004. $8,032 represents the unpaid contribution for fiscal year 2006. 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.

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.

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, 2006, 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, 2006, 2005, and 2004 were $184,941, $228,052, and $164,484, respectively; 83.41% has been contributed for fiscal year 2006, and 100% has been contributed for fiscal years 2005 and 2004. $30,682 represents the unpaid contribution for fiscal year 2006. The balance outstanding is reflected as an intergovernmental payable.

STRS Ohio issues a stand-alone financial report. Copies of STRS Ohio 2006 Comprehensive Annual Financial Report will be available after January 1, 2007. Additional information or copies of STRS Ohio's 2006 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, 2006, 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 2006, 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 (the latest information available) were $178,221,113 and the target level was $267.3 million. At June 30, 2005, 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, 2006, 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 $13,887 for the fiscal year ended June 30, 2006.

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.

8. POSTEMPLOYMENT BENEFITS (CONTINUED)

B. State Teachers Retirement System (Continued)

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, 2006, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled $15,911 for the fiscal year ended June 30, 2006.

For the fiscal year ended June 30, 2005 (the latest information available) 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.

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, 2006.

11. CONTINGENCIES (CONTINUED)

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 has settled this lawsuit against them (see Note 19).

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 2006 student enrollment data and FTE calculations. For fiscal year 2006, the School does not anticipate revenue adjustments based on the results of any such review.

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 $43,474 was paid during the year, and a liability in the amount of $8,182 was accrued as a liability for the fiscal year ended June 30, 2006.

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;

12. FISCAL AGENT (CONTINUED)

- 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, 2005 through June 30, 2006, purchased service expenses were payments for services rendered by various vendors, as follows:

Professional and Technical Services	$ 126,452
Property Services	237,086
Travel Mileage/Meeting Expenses	28,540
Communications	45,498
Utilities	37,784
Contracted Craft or Trade Services	98,190
Tuition	4,123
Pupil Transportation Services	250
Total Purchased Services	$ 577,923

14. DEBT

Debt outstanding for the School as of June 30, 2006 was as follows:

	Balance 7/1/05	Additions	Payments	Balance 6/30/06
Short-Term Debt				
Line of Credit	$ 3,391	$ 64,000	$ 19,400	$ 47,991
Capital Lease Payable	593	0	593	0
Totals	$ 3,984	$ 64,000	$ 19,993	$ 47,991

	Balance 7/1/05	Additions	Payments	Balance 6/30/06	Amount Due Within One Year
Long-Term Debt					
Stranahan Foundation	$ 150,000	$ 0	$ 0	$ 150,000	$ 0
Toledo Infocom LLC	414,490	0	13,230	401,260	65,892
Note Payable #1	1,250,000	0	25,038	1,224,962	36,437
Note Payable #2	313,919	0	9,113	304,806	8,232
Capital Lease Payable	8,552	0	1,950	6,602	2,070
Totals	$ 2,136,961	$ 0	$ 49,331	$ 2,087,630	$ 112,631

The annual requirements to amortize the installment notes outstanding, based on the current interest rate, are as follows as of June 30, 2006:

	Toledo Infocom LLC Loan		Sky Bank Note #1		Sky Bank Note #2		Stranahan Foundation Loan	
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	65,892	17,629	36,437	89,715	8,232	21,214	0	0
2008	17,283	16,374	39,879	86,979	8,280	20,639	0	0
2009	18,168	15,490	42,946	83,913	288,294	20,061	0	0
2010	19,097	14,561	46,248	80,610	0	0	11,454	9,677
2011	20,074	13,584	49,804	77,054	0	0	11,331	9,800
2012-2016	116,868	51,420	312,705	321,587	0	0	70,739	34,914
2017-2021	143,878	18,409	696,943	140,157	0	0	56,476	6,916
Totals	$ 401,260	$ 147,467	$ 1,224,962	$ 880,015	$ 304,806	$ 61,914	$ 150,000	$ 61,307

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, 2006 was $20,427.

The Note Payable #1 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 and a $1,000,000 guarantee from the Ohio School Facilities Commission. The terms of the note had a maturity date of November 3, 2019. The interest on this promissory note is variable and was 7.431 percent as of June 30, 2006. Total interest expense for the year ended June 30, 2006 was $84,442.

14. DEBT (CONTINUED)

The Note Payable #2 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 6.98 percent as of June 30, 2006. Total interest expense for the year ended June 30, 2006 was $21,384.

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 2006.

The School has a line of credit from Sky Bank. It is an operating line of credit that was issued on July 22, 2004, in the amount of $50,000 and is unsecured. The line of credit was payable on July 22, 2005. Additional draws were made during fiscal year 2006. Interest on the line of credit is variable and was 8.25 percent as of June 30, 2006. Total interest expense for the year ended June 30, 2006 was $751.

The capital leases are described in a separate note.

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 the 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, 2006. Payments for principal and interest totaled $3,070 for the fiscal year ending June 30, 2006.

Fiscal Year Ending June 30,	Principal	Interest
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 43604. The period commenced on August 1, 2004 and ends on June 30, 2008.

Future minimum lease payments for this lease are as follows:

June 30, 2007	$	23,954
June 30, 2008		23,954

17. MANAGEMENT'S PLANS REGARDING ACCUMULATED DEFICIT

The School has a negative net asset balance of $231,999 for the fiscal year ended June 30, 2006 and had an operating loss of $496,898. The School also showed an increase in its negative net asset balance by $107,905 from fiscal year 2005. 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.

The Board of Directors at the School actively focuses on a plan to reverse the accumulated deficit. The central goal of the Finance Committee is to operate the organization in a cost-sensitive manner so as to end each year with a fund surplus that can be used to repay liabilities of the School. By strengthening the effectiveness of the Business Office in providing current financial data, the Finance Committee now works pro-actively rather than re-actively on the fiscal condition of the School. Daily cash flow management projections are maintained throughout the entire school year. Monthly projections of revenues and spending are available at least six months in advance. All accounting records of the School are compiled and reconciled monthly under the direction of the Chairman of the Finance Committee. Compiled financial statements are discussed and approved monthly by the Board of Directors. Another key component is the growth in responsibility assumed by the Development Office at the School. Experience gained over the past four years by the Development Office has increased the ability to bring additional non-operating funds to the School. The Development Office has shown that it can creatively campaign throughout the community to bring contributions to the School despite the difficult economic climate.

Through continued cash management, budgeting, monitoring of expenditures, and repayment of debt, the School is actively working to eliminate the deficit.

18. RELATED PARTY TRANSACTION

Two of the School employees have spouses on the Governing Board. During the fiscal year ended June 30, 2006, the School paid these two employees $33,563 and $2,650 in wages and benefits.

19. SUBSEQUENT EVENTS

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.

During the year ended June 30, 2007, the School settled a lawsuit against them for a breach of a lease agreement. The settlement amount was $22,000 and has been recorded as a a liability for the year ended June 30, 2006.

LublinSussman Group LLP
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

To the Governing Board:

We have audited the financial statements of Toledo School for the Arts, Lucas County, Ohio, (the School) as of and for the year ended June 30, 2006, and have issued our report thereon dated March 26, 2007. 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 to determine our auditing procedures in order to express our opinion on the financial statements and not to provide an opinion 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 initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2006-01.

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 material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

Compliance and Other Matters

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

However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no 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 March 26, 2007.

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.

Rehmann Robson Group LLP

March 26, 2007
Toledo, Ohio

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

FINDING NUMBER 2006-001

Reportable Condition - Food Services Receipts

During our audit planning, we noted an internal control deficiency with the handling of food service receipts. Once the cash is collected, the cash and register tape are given to an assistant. This assistant creates a lunch recap spreadsheet summarizing the transactions and deposit slip based off of the information and cash provided. No other individuals ensure that the lunch recap spreadsheet agrees with the register tape. The register tape is destroyed by the assistant after a short period of time. This control deficiency presents an opportunity for misappropriation of cash.

We recommend the School have an individual other than the assistant compare the register tape with the validated deposit slip and the lunch room recap on a daily basis. Once the register tape, deposit slip, and lunch room recap are reconciled by this individual, the individual should initial off on the lunch room recap to leave evidence that the reconciliation was performed. We would also recommend that the register receipts be kept for a period of at least two years.

Response: The School has adjusted their internal controls to incorporate segregation of duties involving food service receipts. The food service receipts are collected daily by the cafeteria cashier. The daily receipts are brought to the Treasurer's assistant by the cashier. The treasurer's assistant counts the cash and prepares the deposit. The deposit receipt and cash count are compared to the register tape by the Treasurer.

TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2006

No findings were identified during the prior audit.

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
SEPTEMBER 27, 2007

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