

**TOLEDO SCHOOL FOR THE ARTS  
LUCAS COUNTY  
AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2007**





Mary Taylor, CPA  
Auditor of State

Board of Trustees  
Toledo School for the Arts  
333 14<sup>th</sup> Street  
Toledo, Ohio 43624

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, 2006 through June 30, 2007. 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

May 12, 2008

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# LublinSussman Group LLP

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## INDEPENDENT AUDITOR'S REPORT

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

To the Governing Board:

We have audited the accompanying financial statements of Toledo School for the Arts, Lucas County, Ohio, (the School), as of and for the year ended June 30, 2007, 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, 2007, and the changes in financial position and cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 19, 2008 on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in conjunction with this report in considering the results of our audit.

[www.lublinsussman.com](http://www.lublinsussman.com)

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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.

*SublinSussman Group LLP*

March 19, 2008  
Toledo, Ohio

TOLEDO SCHOOL FOR THE ARTS  
LUCAS COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
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, 2007. 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 \$3,239,088. Total assets increased \$863,511. This increase was due to the purchase of the first floor and basement in the Condominium for future expansion.
- Total Liabilities were \$3,284,487. Total liabilities increased \$679,441. This increase was due to the additional mortgage on the property.
- Total change in net assets was \$184,070.

### **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. These statements 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.

TOLEDO SCHOOL FOR THE ARTS  
LUCAS COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
UNAUDITED (CONTINUED)

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 2007 compared to fiscal year 2006:

Table 1  
Net Assets

	<u>2007</u>	<u>2006</u>
<b>Assets</b>		
Current Assets	\$ 61,338	\$ 36,991
Restricted Pledges Receivable	26,410	47,741
Capital Assets, Net	<u>3,151,340</u>	<u>2,290,845</u>
Total Assets	<u>\$ 3,239,088</u>	<u>\$ 2,375,577</u>
<b>Liabilities</b>		
Current Liabilities	\$ 569,235	\$ 630,047
Noncurrent Liabilities	<u>2,715,252</u>	<u>1,974,999</u>
Total Liabilities	<u>3,284,487</u>	<u>2,605,046</u>
<b>Net Assets</b>		
Invested in Capital Assets	353,419	203,215
Restricted for Capital Projects	26,410	47,741
Restricted for Other Purposes	10,591	11,707
Unrestricted	<u>(435,819)</u>	<u>(492,132)</u>
Total Net Assets	<u>\$ (45,399)</u>	<u>\$ (229,469)</u>

Total assets increased to \$3,239,088, which represents a 36.35% (\$863,511) increase from fiscal year 2006. Cash and cash equivalents increased by \$7,812. Total liabilities increased by \$679,441. The School's net assets increased by \$184,070.

TOLEDO SCHOOL FOR THE ARTS  
LUCAS COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
UNAUDITED (CONTINUED)

Table 2 shows the changes in net assets for the year ended 2007 as compared to fiscal year 2006.

Table 2  
Change in Net Assets

	<u>2007</u>	<u>2006</u>
<b>Revenues</b>		
Operating Revenues:		
Foundation Payments	\$ 2,356,575	\$ 2,185,701
Disadvantaged Pupil Impact Aid	67,505	39,239
Career Tech	200,766	85,250
Special Education	31,291	23,394
Food Services	32,959	40,064
Classroom Fees	90,945	70,104
Other Operating Revenues	25,949	47,744
Non-Operating Revenues:		
Federal and State Grants	246,512	285,527
Contributions and Donations	435,373	230,423
Rental Activities	188,823	0
Interest	387	154
Total Revenues	<u>3,677,085</u>	<u>3,007,600</u>
<b>Expenses</b>		
Operating Expenses		
Salaries	1,651,410	1,604,200
Fringe Benefits	458,590	386,956
Purchased Services	813,360	599,923
Materials and Supplies	147,876	174,784
Depreciation	92,125	82,463
Capital Outlay	58,402	47,612
Other Expenses	80,253	89,926
Non-Operating Expenses:		
Interest and Fiscal Charges	<u>190,999</u>	<u>127,111</u>
Total Expenses	<u>3,493,015</u>	<u>3,112,975</u>
Increase (Decrease) in Net Assets	<u>\$ 184,070</u>	<u>\$ (105,375)</u>

There was an increase in revenues of \$669,485 and an increase in expenses of \$380,040 from fiscal year 2006. Of the increase in revenues, the foundation payments increased by \$170,874 and career tech increased by \$115,516. These increases can be attributed to an increase in the number of students from fiscal year 2006. The addition of rental activities attributed \$188,823 to the increase in revenue. The increases in revenue can also be attributed to an increase in contributions and donations of \$204,950. Community Schools receive no support from tax revenues.

TOLEDO SCHOOL FOR THE ARTS  
LUCAS COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
UNAUDITED (CONTINUED)

Expenses for salaries increased by \$47,210 and the expense from fringe benefits increased by \$71,634 from fiscal year 2006. Both increases were due to an increase in staff throughout the 2007 school year. Purchased services increased by \$213,437 due to additional costs associated with purchasing the first floor and basement of the condominium and increased operating costs. Interest and fiscal charges increased by \$63,888 from 2006. This increase reflects the interest on loans in connection with the School's purchase of additional floors of the condominium.

**Accumulated Deficit and Operating Loss**

The Net Assets deficit of \$45,399 reflects an increase in net assets of \$184,070 from fiscal year 2006. This increase is the result of higher than expected growth in enrollment and significant pay-downs on debt securing real estate which compliment the school's successful budget management process.

**Capital Assets**

At the end of fiscal year 2007 the School had \$3,151,340 invested in buildings, improvements, furniture and equipment . Table 3 shows fiscal year 2007 balances compared to fiscal year 2006:

Table 3  
Capital Assets at June 30, 2007  
(Net of Depreciation)

	<u>2007</u>	<u>2006</u>
Land	\$ 58,300	\$ 58,300
Buildings	2,931,914	2,091,998
Improvements Other than Buildings	117,091	72,071
Furniture, Fixtures, and Equipment	44,035	68,476
Construction-in-Progress	<u>0</u>	<u>0</u>
Totals	<u>\$ 3,151,340</u>	<u>\$ 2,290,845</u>

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

**Debt**

At June 30, 2007 the School had \$2,797,921 in outstanding debt, \$82,669 of which is due within one year. Table 4 summarizes the debt outstanding.

Table 4  
Outstanding Debt at Year End

	<u>2007</u>	<u>2006</u>
Capital Leases Payable	\$ 4,532	\$ 6,602
Notes Payable	2,793,389	2,081,028
Line of Credit	<u>0</u>	<u>47,991</u>
Total Outstanding Debt	<u>\$ 2,797,921</u>	<u>\$ 2,135,621</u>

For more information on debt see Notes 13 and 14 to the basic financial statements.

TOLEDO SCHOOL FOR THE ARTS  
LUCAS COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
UNAUDITED (CONTINUED)

**Current Financial Issues**

The School's financial relationship with the Lucas County Educational Service Center was terminated on December 31, 2007. A licensed School Treasurer is currently part of the Administrative Staff of the School. During the 2006-2007 school year, there were approximately 397 students enrolled in the School. The School receives its finances mostly from state aid. Per pupil aid for fiscal year 2007 amounted to \$5,335 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](mailto:kallred@ts4arts.org).

TOLEDO SCHOOL FOR THE ARTS  
LUCAS COUNTY  
STATEMENT OF NET ASSETS  
AS OF JUNE 30, 2007

Assets:

Current Assets:

Cash and Cash Equivalents (Note 2)	\$ 43,038
Accounts Receivable	5,980
Intergovernmental Receivable (Note 4)	<u>12,320</u>
Total Current Assets	<u>61,338</u>

Noncurrent Assets:

Restricted Pledges Receivable (Note 4)	26,410
Capital Assets, Net (Notes 5, 14)	<u>3,151,340</u>
Total Noncurrent Assets	<u>3,177,750</u>
Total Assets	<u>\$ 3,239,088</u>

Liabilities:

Current Liabilities:

Accounts Payable	\$ 67,011
Interest Payable	16,015
Accrued Wages and Benefits Payable	237,553
Intergovernmental Payable	77,261
Deferred Revenue	52,334
Security Deposits	32,000
Due to Students	4,392
Capital Lease Payable (Notes 13, 14)	2,198
Notes Payable (Note 13)	<u>80,471</u>
Total Current Liabilities	<u>569,235</u>

Noncurrent Liabilities:

Capital Lease Payable (Notes 13, 14)	2,334
Notes Payable (Note 13)	<u>2,712,918</u>
Total Noncurrent Liabilities	<u>2,715,252</u>
Total Liabilities	<u>3,284,487</u>

Net Assets:

Invested in Capital Assets, Net of Related Debt	353,419
Restricted for Capital Projects (Note 4)	26,410
Restricted for Other Purposes	10,591
Unrestricted	<u>(435,819)</u>
Total Net Assets	<u>\$ (45,399)</u>

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, 2007

<u>Operating Revenues:</u>	
Foundation Payments	\$ 2,356,575
Disadvantaged Pupil Impact Aid	67,505
Career Tech	200,766
Special Education	31,291
Food Services	32,959
Classroom Fees	90,945
Other Operating Revenues	<u>25,949</u>
Total Operating Revenues	<u>2,805,990</u>
 <u>Operating Expenses:</u>	
Salaries	1,651,410
Fringe Benefits	458,590
Purchased Services (Note 12)	813,360
Materials and Supplies	147,876
Depreciation	92,125
Capital Outlay	58,402
Other Operating Expenses	<u>80,253</u>
Total Operating Expenses	<u>3,302,016</u>
Operating Loss	<u>(496,026)</u>
 <u>Non-Operating Revenues and Expenses:</u>	
Grants - Federal	223,916
Grants - State	22,596
Contributions and Donations	435,373
Rental Activities	188,823
Interest	387
Interest and Fiscal Charges	<u>(190,999)</u>
Total Non-Operating Revenues	<u>680,096</u>
Change in Net Assets	184,070
Net Assets at Beginning of Year	<u>(229,469)</u>
Net Assets at End of Year	<u>\$ (45,399)</u>

See Notes to Financial Statements

TOLEDO SCHOOL FOR THE ARTS  
LUCAS COUNTY  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2007

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$ 2,656,138
Cash Received from Food Services	32,959
Cash Received from Classroom Fees	106,804
Cash Received from Security Deposits	32,000
Cash Received from Other Operating Sources	25,949
Cash Received from Rental Activities	188,823
Cash Payments to Suppliers for Goods and Services	(1,230,267)
Cash Payments to Employees for Services	(1,636,377)
Cash Payments for Employee Benefits	<u>(427,173)</u>
Net Cash Used for Operating Activities	<u>(251,144)</u>

Cash Flows from Noncapital Financing Activities:

Cash Payments for Principal Payments	(45,991)
Cash Received from Operating Grants - Federal	218,011
Cash Received from Operating Grants - State	11,900
Cash Received Contributions and Donations	<u>356,723</u>
Net Cash Provided by Noncapital Financing Activities	<u>540,643</u>

Cash Flows from Capital and Related Financing Activities:

Cash Received from Contributions and Donations	98,634
Cash Payments for Principal Payments	(189,709)
Cash Payments for Interest Payments	<u>(190,999)</u>
Net Cash Used by Noncapital Financing Activities	<u>(282,074)</u>

Cash Flows from Investing Activities:

Cash Received from Interest on Investments	<u>387</u>
--	------------

Net Increase in Cash and Cash Equivalents	7,812
Cash and Cash Equivalents at Beginning of Year	<u>35,226</u>
Cash and Cash Equivalents at End of Year	<u>\$ 43,038</u>

See Notes to Financial Statements

TOLEDO SCHOOL FOR THE ARTS  
LUCAS COUNTY  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2007 (CONTINUED)

Reconciliation of Operating Loss

Net Cash Used for Operating Activities:

Operating Loss \$ (496,026)

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

Rental Revenue	188,823
Depreciation	92,125
Changes in Assets and Liabilities:	
Increase in Accounts Receivable	(5,980)
Increase in Intergovernmental Receivable	(8,080)
Decrease in Accounts Payable	(86,391)
Increase in Accrued Wages Payable and Benefits Payable	19,422
Increase in Due to Students	2,075
Increase in Deferred Revenue	15,860
Increase in Intergovernmental Payable	<u>27,028</u>
Total Adjustments	<u>244,882</u>
Net Cash Used for Operating Activities	<u>\$ (251,144)</u>

Noncash Capital and Related Financing Activities

Capital Assets Acquired Through Financing \$ 900,000

TOLEDO SCHOOL FOR THE ARTS  
LUCAS COUNTY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2007

**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 through 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 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 50 certificated and 13 classified personnel who provide services to 397 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.

TOLEDO SCHOOL FOR THE ARTS  
LUCAS COUNTY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2007

**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. The School's financial relationship with the Lucas County Educational Service Center was terminated on December 31, 2006. A licensed School Treasurer is currently part of the Administrative Staff of the School.

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. The School does not possess any infrastructure.

TOLEDO SCHOOL FOR THE ARTS  
LUCAS COUNTY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2007

**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, 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, 2007, 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, 2007.

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 other purposes at June 30, 2007.

TOLEDO SCHOOL FOR THE ARTS  
LUCAS COUNTY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2007

**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.

L. Accounts Receivable

The School uses the direct write-off method to provide for uncollectible accounts. There is no material effect on change in net assets from using this method rather than the allowance method. Accounts are charged to bad debt after management is satisfied that all attempts to collect the receivable have been exhausted.

TOLEDO SCHOOL FOR THE ARTS  
LUCAS COUNTY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2007

**3. DEPOSITS AND INVESTMENTS**

A. Deposits with Financial Institutions

At June 30, 2007, the carrying amount of the School's deposits was \$43,038 and the bank balance was \$172,679. Of the bank balance, \$100,000 was covered by federal depository insurance and \$72,679 was collateralized by the financial institution's public entity deposit pool.

Custodial credit risk is the risk that, in the event of bank failure, the School's deposit may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the School. The School holds no investments at June 30, 2007.

**4. RECEIVABLES**

Receivables at June 30, 2007 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 and within less than one year.

Intergovernmental receivables consisted of the following at June 30, 2007:

<u>Receivables</u>	<u>Amount</u>
Intergovernmental:	
Ohio CORE	2,877
IDEA-B	1,624
Title I	7,374
Title IV	445
Total Intergovernmental Receivables	<u>\$ 12,320</u>

Restricted unconditional promises to give consisted of the following at June 30, 2007:

	<u>Amount</u>
Receivable in Less than One Year	\$ 28,673
Receivable in One to Five Years	<u>0</u>
Total Unconditional Promises to Give	28,673
Less: Discount to Present Value	<u>(2,263)</u>
Net Unconditional Promises to Give	<u>\$ 26,410</u>

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

TOLEDO SCHOOL FOR THE ARTS  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2007

**5. CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 58,300	\$ 0	\$ 0	\$ 58,300
Capital Assets Being Depreciated				
Buildings	2,179,217	900,000	0	3,079,217
Improvements Other than Buildings	81,040	52,620	0	133,660
Furniture, Fixtures, and Equipment	<u>328,678</u>	<u>0</u>	<u>0</u>	<u>328,678</u>
Total Capital Assets Being Depreciated	2,588,935	952,620	0	3,541,555
Less Accumulated Depreciation:				
Buildings	(87,219)	(60,084)	0	(147,303)
Improvements Other than Buildings	(8,969)	(7,600)	0	(16,569)
Furniture, Fixtures, and Equipment	<u>(260,202)</u>	<u>(24,441)</u>	<u>0</u>	<u>(284,643)</u>
Total Accumulated Depreciation	<u>(356,390)</u>	<u>(92,125)</u>	<u>0</u>	<u>(448,515)</u>
Total Capital Assets Being Depreciated, Net	<u>2,232,545</u>	<u>860,495</u>	<u>0</u>	<u>3,093,040</u>
Total Capital Assets, Net of Accum. Dep.	<u>\$ 2,290,845</u>	<u>\$ 860,495</u>	<u>\$ 0</u>	<u>\$ 3,151,340</u>

**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 2007, the School had contracted Indiana Insurance Company for the following insurance coverage:

Building & Personal Property	\$ 2,500,000
General Liability per Occurrence	1,000,000
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)	125,000
EDP Software (\$500 Deductible)	INCL
Miscellaneous Scheduled Property (\$500 Deductible)	25,000
Commercial Automobile Coverage	1,000,000
Employee Dishonesty – Blanket (\$500 Deductible)	50,000
Forgery & Alteration (\$500 Deductible)	10,000
Computer Fraud (Crime) (\$500 Deductible)	500,000
Ohio Stop Gap Liability - Each Accident	1,000,000
Ohio Stop Gap Liability - Aggregate	2,000,000
Employee Benefits Liability (\$1,000 Deductible)	1,000,000
Director's & Officer's Liability (\$1,000 Deductible)	1,000,000

TOLEDO SCHOOL FOR THE ARTS  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2007

**6. RISK MANAGEMENT (CONTINUED)**

Settled claims have not exceeded this commercial coverage in the past three years. The School owns the basement, first, 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, 2007, plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute an actuarially determined rate. The employer rate for fiscal year 2007 was 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary 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, 2007, 2006, and 2005 were \$23,459, \$16,396, and \$31,675, respectively; 100% has been contributed for for fiscal years 2007, 2006, and 2005.

TOLEDO SCHOOL FOR THE ARTS  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2007

**7. DEFINED BENEFIT PENSION PLANS (CONTINUED)**

**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 administered by the State Teachers Retirement Board. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a publicly available financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment.

The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. 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. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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. 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.

For the fiscal year ended June 30, 2007, 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. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

TOLEDO SCHOOL FOR THE ARTS  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2007

**7. DEFINED BENEFIT PENSION PLANS (CONTINUED)**

B. State Teachers Retirement Systems (Continued)

The School's required contribution for pension obligations for the fiscal years ended June 30, 2007, 2006, and 2005 were \$186,843, \$184,941, and \$228,052, respectively; 87.51% has been contributed for fiscal year 2007, and 100% has been contributed for fiscal years 2006 and 2005. The balance outstanding is reflected as an intergovernmental payable.

**8. POSTEMPLOYMENT BENEFITS**

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

STRS retirees who participated in the Defined Benefit Plan or the Combined Plan and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2007, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School, this amount was \$14,373 for fiscal year 2007.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006 (the latest information available) the balance in the fund was \$3.5 billion. For the year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000 and STRS had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. 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.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for the fiscal year 2006. 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 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled \$7,293.

TOLEDO SCHOOL FOR THE ARTS  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2007

**8. POSTEMPLOYMENT BENEFITS (CONTINUED)**

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. Net health care costs for the year ending June 30, 2006, (the latest information available) were \$158,751,207. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2006, (the latest information available) the value of the health care fund was \$295.6 million which is about 221 percent of next year's projected net health care costs. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for health care reserve equal to at least 150 percent of estimated annual net claims costs. SERS had approximately 59,492 participants currently receiving health care benefits.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For fiscal year June 30, 2007, 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, 2007

The surcharge added to the unallocated portion of the 14 percent employer contribution rate, provides for the maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next year. Expense for health care at June 30, 2006 (the latest information available), were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS had 59,492 participants eligible to receive benefits.

**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  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2007

**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, 2007.

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.

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 2007 student enrollment data and FTE calculations. For fiscal year 2007, the School does not anticipate revenue adjustments based on the results of any such review.

**12. PURCHASED SERVICES**

For the period July 1, 2006 through June 30, 2007, purchased service expenses were payments for services rendered by various vendors, as follows:

Professional and Technical Services	\$ 197,271
Property Services	305,722
Travel Mileage/Meeting Expenses	39,808
Communications	34,559
Utilities	86,297
Contracted Craft or Trade Services	122,981
Tuition	13,424
Pupil Transportation Services	<u>13,298</u>
Total Purchased Services	<u>\$ 813,360</u>

**TOLEDO SCHOOL FOR THE ARTS  
LUCAS COUNTY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2007**

**13. DEBT**

Debt outstanding for the School as of June 30, 2007 was as follows:

	<u>Balance</u> <u>7/1/06</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>6/30/07</u>	
<b>Short-Term Debt</b>					
Line of Credit	\$ 47,991	\$ 0	\$ 47,991	\$ 0	
	<u>Balance</u> <u>7/1/06</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>6/30/07</u>	<u>Amount Due</u> <u>Within One</u> <u>Year</u>
<b>Long-Term Debt</b>					
Stranahan Foundation	\$ 150,000	\$ 0	\$ 33,000	\$ 117,000	\$ 0
Toledo Infocom LLC #1	401,260	0	65,923	335,337	17,283
Toledo Infocom LLC #2	0	180,000	0	180,000	0
Note Payable #1	1,224,962	0	30,826	1,194,136	37,757
Note Payable #2	304,806	0	45,777	259,029	8,172
Note Payable #3	0	720,000	12,113	707,887	17,259
Capital Lease Payable	<u>6,602</u>	<u>0</u>	<u>2,070</u>	<u>4,532</u>	<u>2,198</u>
Totals	<u>\$ 2,087,630</u>	<u>\$ 900,000</u>	<u>\$ 189,709</u>	<u>\$ 2,797,921</u>	<u>\$ 82,669</u>

The annual requirements to amortize the installment notes outstanding, based on the current interest rate, are as follows as of June 30, 2007:

Fiscal Year	Toledo Infocom LLC #1 Loan		Toledo Infocom LLC #2 Note #1		Sky Bank Note #1	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	17,283	16,374	0	5,400	37,757	90,217
2009	18,168	15,490	0	5,400	42,789	87,211
2010	19,097	14,561	0	5,400	46,189	83,811
2011	20,074	13,584	0	5,400	49,858	80,141
2012	21,101	12,557	180,000	820	53,820	76,180
2013-2017	122,847	45,440	0	0	340,457	309,542
2018-2022	<u>116,767</u>	<u>11,734</u>	<u>0</u>	<u>0</u>	<u>623,266</u>	<u>94,302</u>
Totals	<u>\$ 335,337</u>	<u>\$ 129,740</u>	<u>\$ 180,000</u>	<u>\$ 22,420</u>	<u>\$ 1,194,136</u>	<u>\$ 821,404</u>

Fiscal Year	Sky Bank Note #2		Sky Bank Note #3		Stranahan Foundation Loan	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	8,172	20,232	17,259	53,622	0	0
2009	250,857	21,248	18,005	52,347	0	0
2010	0	0	19,436	50,917	8,953	7,497
2011	0	0	20,980	49,372	8,853	7,596
2012	0	0	22,647	47,705	9,513	6,937
2013-2017	0	0	143,261	208,499	59,311	22,938
2018-2022	<u>0</u>	<u>0</u>	<u>466,299</u>	<u>122,099</u>	<u>30,370</u>	<u>2,529</u>
Totals	<u>\$ 259,029</u>	<u>\$ 41,480</u>	<u>\$ 707,887</u>	<u>\$ 584,561</u>	<u>\$ 117,000</u>	<u>\$ 47,497</u>

TOLEDO SCHOOL FOR THE ARTS  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
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**13. DEBT (CONTINUED)**

The Toledo Infocom LLC loan #1 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%. Total interest expense for the year ended June 30, 2007 was \$17,354.

The Toledo Infocom, LLC loan #2 was issued on July 26, 2006, in the amount of \$180,000 to acquire the basement and first floors of the building located at 333 14th Street, Toledo, Ohio and is secured by a mortgage on the building. Loan terms document an interest rate of 3% with interest only payments for a period of five years. The balance of \$180,000 is due on June 1, 2011. Total interest expense for the year ending June 30, 2007 was \$4,500.

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. The terms of the note had a maturity date of November 3, 2019. The interest on this promissory note is variable and was 7.67% as of June 30, 2007. Total interest expense for the year ended June 30, 2007 was \$94,209.

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 8.47% as of June 30, 2007. Total interest expense for the year ended June 30, 2007 was \$25,532.

The Note Payable #3 from Sky Bank is a promissory note issued on July 26, 2006, in the amount of \$720,000 and is secured by a mortgage on the building. The terms of the note include a maturity date of August 1, 2021. The interest rate on this note is variable and was 7.67% as of June 30, 2007. Total interest expense for the year ended June 30, 2007 was \$47,271.

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 2007.

The line of credit from Sky Bank is an operating line of credit that was issued on July 22, 2004, in the amount of \$50,000 and is unsecured. No additional draws were made during fiscal year 2007 and the outstanding balance was paid off in April, 2007. Interest on the line of credit is variable and was 8.25% as of March 30, 2007. Total interest expense for the year ended June 30, 2007 was \$2,133.

Subsequent to June 30, 2007, all outstanding mortgages were re-financed (see note 19).

The capital leases are described in a separate note.

TOLEDO SCHOOL FOR THE ARTS  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2007

**14. 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 leases have been recorded as capital assets at the present value of the minimum lease payments as of the inception date, at a cost of \$40,440. Related accumulated depreciation was \$35,494 at June 30, 2007.

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, 2007. The remaining capital lease payable balance was \$4,532 at June 30, 2007. Payments for principal and interest totaled \$2,070 for the fiscal year ending June 30, 2007.

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 2,198	\$ 280
2009	2,334	144

**15. 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 July 31, 2014. The school shall have the right to renew the lease for three additional terms of five years each. Lease payments totaled \$23,954 for the year. At year-end, all rent owed to the lessor was paid in full.

Future minimum lease payments for this lease are as follows:

June 30, 2008	\$ 23,954
June 30, 2009	23,954
June 30, 2010	23,954
June 30, 2011	23,954
June 30, 2012	23,954

TOLEDO SCHOOL FOR THE ARTS  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2007

**16. MANAGEMENT'S PLANS REGARDING ACCUMULATED DEFICIT**

The School has a negative net asset balance of \$45,399 for the fiscal year ended June 30, 2007 and had an operating loss of \$496,026. The School also showed an increase in its negative net asset balance by \$184,070 from fiscal year 2006. 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 maintain a positive net asset balance. 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 five 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.

**17. RELATED PARTY TRANSACTION**

Three of the School employees have spouses on the Governing Board. During the fiscal year ended June 30, 2007, the School paid these three employees \$44,174, \$18,141 and \$2,800 in wages and benefits.

TOLEDO SCHOOL FOR THE ARTS  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2007

**18. SUBSEQUENT EVENT**

In fiscal year 2008, all outstanding mortgages were re-financed in a \$3.75 Million Tax-Exempt Revenue Bond Refinancing Project through the Toledo Lucas County Port Authority with an interest rate of 5.5% for a term of 20 years. The annual requirements to amortize the revenue bonds outstanding, based on the current interest rate, are as follows:

Toledo Lucas County Port Authority  
Revenue Bond

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Fees</u>
2008	0	100,833	10,267
2009	105,000	204,715	20,844
2010	120,000	198,825	20,244
2011	125,833	192,202	19,570
2012	130,833	185,167	18,854
2013-2017	650,833	819,683	83,459
2018-2022	849,167	620,102	63,252
2023-2027	1,140,833	352,848	38,328
2028	<u>627,501</u>	<u>29,058</u>	<u>3,784</u>
Totals	<u>\$ 3,750,000</u>	<u>\$ 2,703,433</u>	<u>\$ 278,602</u>

# 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, 2007, and have issued our report thereon dated March 19, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we considered to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that a misstatement of the School's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control.

We consider the deficiency described in the accompanying schedule of findings and responses as Findings 2007-001 through 2007-002 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School's internal control.

Our consideration of the internal control over financial reporting was for the limited purposes described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, we consider Finding 2007-002 to be a material weakness.

We noted certain matters that we reported to the School's management in a separate letter dated March 19, 2008.

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 directly and materially affect 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's management in a separate letter dated March 19, 2008.

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.

*Seiblin Sussman Group LLP*

March 19, 2008  
Toledo, Ohio

TOLEDO SCHOOL FOR THE ARTS  
LUCAS COUNTY  
SCHEDULE OF FINDINGS  
JUNE 30, 2007

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

FINDING NUMBER 2007-001

**Significant Deficiency - 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.

FINDING NUMBER 2007-002

**Material Weakness - Detection of Material Misstatements**

An adequately designed internal control structure includes the ability of an organization to detect and prevent material misstatements in the financial statements. During the audit, it was determined that journal entries made by management resulted in material misstatements to the financial statements and had to be corrected.

Response: The School needs to ensure that journal entries are being properly posted and the financial statements are not materially misstated.

SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2007

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b>Explain:</b>
2006-001	Reportable Condition: The School did not properly handle food service receipts.	No	Repeated as finding 2007-001



**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  
MAY 22, 2008**