

**TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**



Mary Taylor, CPA

Auditor of State

Governing Body
Toledo School for the Arts
333 14th St.
Toledo, Ohio 43604

We have reviewed the *Independent Auditor's Report* of the Toledo School for the Arts, Lucas County, prepared by LublinSussman Group LLP, for the audit period July 1, 2007 through June 30, 2008. 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

April 27, 2009

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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, 2008, 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, 2008, 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 24, 2009 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.

Seublin Sussman Group LLP

March 24, 2009
Toledo, Ohio

TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
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, 2008. 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.

Financial Highlights

- Total Assets were \$4,965,346. Total assets increased \$1,726,258. This increase was due to additional funds that were available for renovation of the first floor of the building owned at 333 14th Street. These funds were part of the \$3,750,000 Tax Exempt Bond issued by The Toledo Lucas County Port Authority.
- Total Liabilities were \$4,730,603. Total liabilities increased \$1,446,116. This increase was also due to the refinance of all current mortgages with additional funds available for improvement of the property.
- Total change in net assets was \$280,142.

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, 2008
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 2008 compared to fiscal year 2007:

Table 1
Net Assets

	<u>2008</u>	<u>2007</u>
Assets		
Current Assets	\$ 207,084	\$ 61,338
Restricted Cash and Cash Equivalents	918,162	0
Pledges Receivable	50,388	26,410
Deferred Fees, Net of Amortization	190,035	0
Capital Assets, Net of Depreciation	<u>3,599,677</u>	<u>3,151,340</u>
Total Assets	<u>\$ 4,965,346</u>	<u>\$ 3,239,088</u>
Liabilities		
Current Liabilities	\$ 712,276	\$ 569,235
Noncurrent Liabilities	<u>4,018,327</u>	<u>2,715,252</u>
Total Liabilities	<u>\$ 4,730,603</u>	<u>\$ 3,284,487</u>
Net Assets		
Invested in Capital Assets	\$ 340,767	\$ 353,419
Restricted for Capital Improvements	537,793	26,410
Restricted for Debt Service Reserve	380,369	10,591
Restricted for Other Purposes	19,701	0
Unrestricted	<u>(1,043,887)</u>	<u>(435,819)</u>
Total Net Assets	<u>\$ 234,743</u>	<u>\$ (45,399)</u>

Total assets increased to \$4,965,346, which represents a 53% (\$1,726,258) increase from fiscal year 2007. Cash and cash equivalents increased by \$960,199. Total liabilities increased by \$1,446,116. The School's net assets increased by \$280,142.

TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED (CONTINUED)

Table 2 shows the changes in net assets for the year ended 2008 as compared to fiscal year 2007.

Table 2
Change in Net Assets

	<u>2008</u>	<u>2007</u>
Revenues		
Operating Revenues:		
Foundation Payments	\$ 2,621,893	\$ 2,356,575
Disadvantaged Pupil Impact Aid	203,663	67,505
Career Tech	187,658	200,766
Special Education	52,909	31,291
Food Services	43,819	32,959
Classroom Fees	97,563	90,945
Other Operating Revenues	27,128	25,949
Non-Operating Revenues:		
Federal and State Grants	318,730	246,512
Contributions and Donations	370,734	435,373
Rental Activities	181,984	188,823
Interest	<u>16,241</u>	<u>387</u>
Total Revenues	<u>4,122,322</u>	<u>3,677,085</u>
Expenses		
Operating Expenses		
Salaries	1,872,243	1,651,410
Fringe Benefits	498,649	458,590
Purchased Services	815,724	813,360
Materials and Supplies	178,417	147,876
Depreciation	125,282	92,125
Amortization Expense	5,093	0
Capital Outlay	59,365	58,402
Other Expenses	77,967	80,253
Non-Operating Expenses:		
Interest and Fiscal Charges	<u>209,440</u>	<u>190,999</u>
Total Expenses	<u>3,842,180</u>	<u>3,493,015</u>
Increase in Net Assets	<u>\$ 280,142</u>	<u>\$ 184,070</u>

There was an increase in revenues of \$445,237 and an increase in expenses of \$349,165 from fiscal year 2007. Of the increase in revenues, the foundation payments increased by \$265,318 and disadvantaged pupil impact aid increased by \$136,158. These increases can be attributed to an increase in the number of students from fiscal year 2007. 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, 2008
UNAUDITED (CONTINUED)

Expenses for salaries increased by \$220,833 and the expense from fringe benefits increased by \$40,059 from fiscal year 2007. Both increases were due to an increase in staff throughout the 2008 school year.

Capital Assets

At the end of fiscal year 2008 the School had \$3,599,677 invested in buildings, improvements, furniture and equipment . Table 3 shows fiscal year 2008 balances compared to fiscal year 2007:

Table 3
Capital Assets at June 30, 2008
(Net of Depreciation)

	<u>2008</u>	<u>2007</u>
Land	\$ 58,300	\$ 58,300
Buildings	2,910,204	2,931,914
Improvements Other than Buildings	547,526	117,091
Furniture, Fixtures, and Equipment	<u>83,647</u>	<u>44,035</u>
Totals	<u>\$ 3,599,677</u>	<u>\$ 3,151,340</u>

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

Debt

At June 30, 2008 the School had \$4,177,071 in outstanding debt, \$158,744 of which is due within one year. Table 4 summarizes the debt outstanding.

Table 4
Outstanding Debt at Year End

	<u>2008</u>	<u>2007</u>
Capital Leases Payable	\$ 45,602	\$ 4,532
Notes Payable	<u>4,131,469</u>	<u>2,793,389</u>
Total Outstanding Debt	<u>\$ 4,177,071</u>	<u>\$ 2,797,921</u>

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

Current Financial Issues

A licensed School Treasurer is currently part of the Administrative Staff of the School. During the 2007-2008 school year, there were approximately 450 students enrolled in the School. The School receives its finances mostly from state aid. Per pupil aid for fiscal year 2008 amounted to \$5,502 per student.

TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED (CONTINUED)

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, 2008

Assets:

Current Assets:

Cash and Cash Equivalents (Note 2)	\$ 85,075
Accounts Receivable	2,877
Intergovernmental Receivable (Note 4)	80,014
Pledges Receivable (Note 4)	<u>39,118</u>
Total Current Assets	<u>207,084</u>

Noncurrent Assets:

Restricted Assets:

Cash and Cash Equivalents (Notes 2, 13)	918,162
Pledges Receivable (Note 4)	50,388
Prepaid Loan Costs - Net of Amortization	190,035
Capital Assets, Net of Depreciation (Notes 5, 14)	<u>3,599,677</u>
Total Noncurrent Assets	<u>4,758,262</u>
Total Assets	<u>\$ 4,965,346</u>

Liabilities:

Current Liabilities:

Accounts Payable	\$ 86,503
Interest Payable	18,785
Accrued Wages and Benefits Payable	280,434
Intergovernmental Payable	67,059
Deferred Revenue	62,048
Security Deposits	32,000
Due to Students	6,703
Capital Lease Payable (Notes 13, 14)	21,213
Notes Payable (Note 13)	<u>137,531</u>
Total Current Liabilities	<u>712,276</u>

Noncurrent Liabilities:

Capital Lease Payable (Notes 13, 14)	24,389
Notes Payable (Note 13)	<u>3,993,938</u>
Total Noncurrent Liabilities	<u>4,018,327</u>
Total Liabilities	<u>4,730,603</u>

Net Assets:

Invested in Capital Assets, Net of Related Debt	340,767
Restricted for Capital Improvements	537,793
Restricted for Debt Service Reserve	380,369
Restricted for Other Purposes	19,701
Unrestricted	<u>(1,043,887)</u>
Total Net Assets	<u>\$ 234,743</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, 2008

<u>Operating Revenues:</u>	
Foundation Payments	\$ 2,621,893
Disadvantaged Pupil Impact Aid	203,663
Career Tech	187,658
Special Education	52,909
Food Services	43,819
Classroom Fees	97,563
Other Operating Revenues	<u>27,128</u>
Total Operating Revenues	<u>3,234,633</u>
<u>Operating Expenses:</u>	
Salaries	1,872,243
Fringe Benefits	498,649
Purchased Services (Note 12)	815,724
Materials and Supplies	178,417
Depreciation Expense	125,282
Capital Outlay	59,365
Amortization Expense	5,093
Other Operating Expenses	<u>77,967</u>
Total Operating Expenses	<u>3,632,740</u>
Operating Loss	<u>(398,107)</u>
<u>Non-Operating Revenues and Expenses:</u>	
Grants - Federal	296,869
Grants - State	21,861
Contributions and Donations	370,734
Rental Activities	181,984
Interest	16,241
Interest and Fiscal Charges	<u>(209,440)</u>
Total Non-Operating Revenues	<u>678,249</u>
Change in Net Assets	280,142
Net Assets at Beginning of Year	<u>(45,399)</u>
Net Assets at End of Year	<u>\$ 234,743</u>

See Notes to Financial Statements

TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2008

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$ 3,066,123
Cash Received from Food Services	43,819
Cash Received from Classroom Fees	107,277
Cash Received from Student Activities	100,206
Cash Received from Other Operating Sources	30,231
Cash Received from Rental Activities	181,984
Cash Payments to Suppliers for Goods and Services	(1,168,805)
Cash Payments to Employees for Services	(1,829,363)
Cash Payments for Employee Benefits	<u>(508,851)</u>
Net Cash Provided by Operating Activities	<u>22,621</u>

Cash Flows from Noncapital Financing Activities:

Cash Received from Proceeds of Loans	85,000
Cash Payments for Principal Payments	(85,000)
Cash Received from Operating Grants - Federal	237,766
Cash Received from Operating Grants - State	13,270
Cash Received Contributions and Donations	<u>280,968</u>
Net Cash Provided by Noncapital Financing Activities	<u>532,004</u>

Cash Flows from Capital and Related Financing Activities:

Cash Received from Contributions and Donations	26,668
Cash Received from Proceeds of Loans	4,022,000
Cash Payments for Capital Acquisitions	(686,745)
Cash Payments for Underwriting Fees	(82,000)
Cash Payments for Principal Payments	(2,683,920)
Cash Payments for Interest Payments	<u>(206,670)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>389,333</u>

Cash Flows from Investing Activities:

Cash Received from Interest on Investments	<u>16,241</u>
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Net Increase in Cash and Cash Equivalents	960,199
Cash and Cash Equivalents at Beginning of Year	<u>43,038</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,003,237</u>

See Notes to Financial Statements

TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2008 (CONTINUED)

Reconciliation of Operating Loss to

Net Cash Provided by Operating Activities:

Operating Loss	\$ (398,107)
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Adjustments to Reconcile Operating Loss to Net
Cash Provided by Operating Activities:

Rental Revenue	181,984
Depreciation	125,282
Amortization	5,093
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	3,103
Increase in Capital Lease Payable	41,070
Increase in Accounts Payable	19,492
Increase in Accrued Wages Payable and Benefits Payable	42,881
Increase in Due to Students	2,311
Increase in Deferred Revenue	9,714
Decrease in Intergovernmental Payable	<u>(10,202)</u>
Total Adjustments	<u>420,728</u>
Net Cash Provided by Operating Activities	<u>\$ 22,621</u>

Noncash Capital and Related Financing Activities

Capital Assets Acquired Through Financing	\$ 520,674
Principal Payments Made Through Financing	\$ 2,629,778

TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2008

(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 contract has expired on June 30, 2008. Bowling Green State University is the sponsor of the School, beginning July 1, 2008 for a period of five years.

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 52 certificated and 15 classified personnel who provide services to 450 students.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to a governmental nonprofit organization. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities, provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of the School's accounting policies.

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, 2008

(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 Cash Equivalents

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. The School did not have any investments during the year ended June 30, 2008.

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.

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:

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

TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2008

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Prepayments represent cash disbursements, which have occurred and are therefore not current expendable resources. These items are reported as assets on the statement of net assets, using the allocation method, which amortized their cost over the periods benefiting from the advance payment.

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, debt service, and other purposes at June 30, 2008.

The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

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.

TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2008

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

(3) DEPOSITS

Deposits with Financial Institutions:

At June 30, 2008, the carrying amount of the School's deposits was \$1,003,237 and the bank balance was \$1,068,607. Of the bank balance, \$100,000 was covered by federal depository insurance, \$50,445 was collateralized by the financial institution's public entity deposit pool, and \$918,162 was unsecured.

Custodial credit risk is the risk that, in the event of bank failure, the School's deposit may not be returned.

TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2008

(4) RECEIVABLES

Receivables at June 30, 2008 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, 2008:

<u>Receivables</u>	<u>Amount</u>
Intergovernmental:	
Food Services - Federal Match	\$ 378
IDEA-B	21,911
Title I	49,202
Title IIA	6,184
Title IV	1,547
Title V	792
Total Intergovernmental Receivables	<u>\$ 80,014</u>

Restricted unconditional promises to give consisted of the following at June 30, 2008:

	<u>Amount</u>
Receivable in Less than One Year	\$ 39,118
Receivable in One to Two Years	<u>55,000</u>
Total Unconditional Promises to Give	94,118
Less: Discount to Present Value	<u>(4,612)</u>
Net Unconditional Promises to Give	<u>\$ 89,506</u>

The discount rate used on long-term promises to give was 5.5%.

(5) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Land	\$ 58,300	\$ 0	\$ 0	\$ 58,300
Capital Assets Being Depreciated				
Buildings	3,079,217	40,157	0	3,119,374
Improvements Other than Buildings	133,660	457,672	0	591,332
Furniture, Fixtures, and Equipment	<u>328,678</u>	<u>75,790</u>	<u>0</u>	<u>404,468</u>
Total Capital Assets Being Depreciated	3,541,555	573,619	0	4,115,174
Less Accumulated Depreciation:				
Buildings	(147,303)	(61,867)	0	(209,170)
Improvements Other than Buildings	(16,569)	(27,237)	0	(43,806)
Furniture, Fixtures, and Equipment	<u>(284,643)</u>	<u>(36,178)</u>	<u>0</u>	<u>(320,821)</u>
Total Accumulated Depreciation	<u>(448,515)</u>	<u>(125,282)</u>	<u>0</u>	<u>(573,797)</u>
Total Capital Assets Being Depreciated, Net	<u>3,093,040</u>	<u>448,337</u>	<u>0</u>	<u>3,541,377</u>
Total Capital Assets, Net of Accum. Dep.	<u>\$ 3,151,340</u>	<u>\$ 448,337</u>	<u>\$ 0</u>	<u>\$ 3,599,677</u>

TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2008

(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 2008, 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

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.

TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2008

(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. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone 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. It is also posted on the SERS' Ohio website, www.ohsers.org, under Forms and Publications.

For the fiscal year ended June 30, 2008, plan members are required to contribute 10% of their annual covered salary and the School is required to contribute an actuarially determined rate. The employer rate for fiscal year 2008 was 14% 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 2008, 9.16% 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 by the SERS Retirement Board up to a statutory maximum amount of 10% for plan members and 14% for employees. Chapter 3307 of the Ohio Revised Code provide statutory authority for member and employer contributions. The School's required contribution for pension obligations to SERS for the fiscal years ending June 30, 2008, 2007, and 2006 were \$21,002, \$23,459, and \$16,396, respectively; 75.43% has been contributed for fiscal year 2008, and 100% for fiscal year 2007, and 2006. The balance outstanding is reflected as an intergovernmental payable.

B. State Teachers Retirement Systems

The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost sharing multiple employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2008

(7) DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. State Teachers Retirement Systems (Continued)

The Combined Plan offers features of both 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; The DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. 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 of the DC 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, 2008, plan members were required to contribute 10% of their annual covered salaries. The School was required to contribute 14%; 13% 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% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contribution for pension obligations for the fiscal years ended June 30, 2008, 2007, and 2006 were \$209,625, \$186,843, and \$184,941, respectively; 75.43% has been contributed for fiscal year 2008, and 100% for fiscal years 2007 and 2006. The balance outstanding is reflected as an intergovernmental payable.

(8) POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

The School participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by the State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contracting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2008

(8) POSTEMPLOYMENT BENEFITS (CONTINUED)

A. School Employees Retirement System (Continued)

State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14% of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.185 of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$35,800.

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

The School's contributions for health care for the fiscal years ended June 30, 2008, 2007 and 2006, were \$11,097, \$7,293, and \$13,887, respectively; 70.51% has been contributed for fiscal year 2008, and 100% for fiscal years 2007 and 2006. The balance outstanding is reflected as an intergovernmental payable.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2008, this actuarially required allocation was 0.66% of covered payroll. The School's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006, were \$1,752, \$1,152, and \$2,193, respectively; 70.51% has been contributed for fiscal year 2008, and 100% for fiscal years 2007 and 2006.

B. State Teachers Retirement System of Ohio

The School contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.Strsoh.org or by calling (888) 227-7877.

Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board Authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. The Academy's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$16,125, \$13,887, and \$15,911, respectively; 75.43% has been contributed for fiscal year 2008, and 100% for fiscal years 2007 and 2006. The balance outstanding is reflected as an intergovernmental payable.

TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2008

(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, 2008.

B. Pending Litigation

The School is not involved in any litigation that, in the opinion of management, would have a material effect on the financial statements.

C. School Funding

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. ODE has not yet conducted a review of the School's 2008 student enrollment data and FTE calculations. For fiscal year 2008, the School does not anticipate revenue adjustments based on the results of any such review.

TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2008

(12) PURCHASED SERVICES

For the period July 1, 2007 through June 30, 2008, purchased service expenses were payments for services rendered by various vendors, as follows:

Professional and Technical Services	\$ 138,563
Property Services	272,629
Travel Mileage/Meeting Expenses	114,931
Communications	32,343
Utilities	102,639
Contracted Craft or Trade Services	137,802
Tuition	4,238
Pupil Transportation Services	12,579
Total Purchased Services	<u>\$ 815,724</u>

(13) DEBT

Debt outstanding for the School as of June 30, 2008 was as follows:

	<u>Balance</u> <u>7/1/07</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>6/30/08</u>
<u>Short-Term Debt</u>				
Line of Credit	\$ 0	\$ 85,000	\$ 85,000	\$ 0

	<u>Balance</u> <u>7/1/07</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>6/30/08</u>	<u>Amount Due</u> <u>Within One</u> <u>Year</u>
<u>Long-Term Debt</u>					
Toledo Lucas County Port Authority	\$ 0	\$ 3,750,000	\$ 0	\$ 3,750,000	\$ 105,000
Local Initiatives Support Corporation	0	272,000	7,531	264,469	32,531
Stranahan Foundation	117,000	0	0	117,000	0
Note Payable #1	1,194,136	0	1,194,136	0	0
Note Payable #3	707,887	0	707,887	0	0
Toledo Infocom LLC #1	335,337	0	335,337	0	0
Note Payable #2	259,029	0	259,029	0	0
Toledo Infocom LLC #2	180,000	0	180,000	0	0
Capital Lease Payable	4,532	64,867	23,797	45,602	23,797
Totals	<u>\$ 2,797,921</u>	<u>\$ 4,086,867</u>	<u>\$ 2,707,717</u>	<u>\$ 4,177,071</u>	<u>\$ 161,328</u>

TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2008

(13) DEBT (CONTINUED)

The annual requirements to amortize the installment notes outstanding, based on the current interest rate, are as follows as of June 30, 2008:

Fiscal Year	Toledo Lucas County Port Authority		Local Initiatives Support Corporation		Stranahan Foundation	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	105,000	204,715	32,531	18,107	0	0
2010	120,000	198,825	34,970	15,669	0	0
2011	125,833	192,202	37,591	13,047	0	0
2012	130,833	185,167	40,409	10,230	0	0
2013	133,333	177,856	43,437	7,201	33,000	0
2014-2018	668,333	783,727	75,531	4,646	84,000	0
2019-2023	899,168	572,710	0	0	0	0
2024-2028	1,567,500	287,398	0	0	0	0
Totals	<u>\$ 3,750,000</u>	<u>\$ 2,602,600</u>	<u>\$ 264,469</u>	<u>\$ 68,900</u>	<u>\$ 117,000</u>	<u>\$ 0</u>

The Toledo Lucas County Port Authority's Tax-Exempt Development Revenue Bonds were issued on December 19, 2007, in the amount of \$3,750,000 to purchase the first floor and basement in the Condominium for future expansion, refinance all existing mortgages, and provide funding for capital improvements. The terms of the tax-exempt development revenue bonds is 20 years with a final principal payment to the bondholders on May 15, 2028. The interest rate on the bonds is 5.50%. Total interest expense for the year ended June 30, 2008 was \$95,085. The bonds are secured by the building, a primary bond reserve of \$380,369, and guarantees. Contrary to Ohio law, the term of these bonds exceeded the maximum term allowed of 15 years.

Funds related to this financing are being maintained in separate accounts for various purposes. At June 30, 2008, \$537,793 was available for capital improvements and \$380,369 was maintained as a debt service reserve.

The Local Initiatives Support Corporation (LISC) loan was issued on December 1, 2007, in the amount of \$272,000 to purchase the first floor and basement in the condominium for future expansion. The terms of the loan have a maturity date of December 1, 2014. The interest rate on the loan is 5%. Total interest expense for the year ended June 30, 2008 was \$10,458. The loan is secured by the building.

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 was 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 was due at the maturity date. The interest rate on this loan was 5%. The loan was paid off with proceeds of the tax-exempt development revenue bonds during the year ended June 30, 2008. Total interest expense for the year ended June 30, 2008 was \$7,759.

TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2008

(13) DEBT (CONTINUED)

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 was 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 was due on June 1, 2011. The loan was paid off with proceeds of the tax-exempt development revenue bonds during the year ended June 30, 2008. Total interest expense for the year ending June 30, 2008 was \$2,700.

The Note Payable #1 from Huntington Bank was a promissory note issued on July 22, 2004, in the amount of \$1,250,000 and was 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 was variable and was 7.67% as of June 30, 2008. The loan was paid off with proceeds of the tax-exempt development revenue bonds during the year ended June 30, 2008. Total interest expense for the year ended June 30, 2008 was \$45,764.

The Note Payable #2 from Huntington Bank was a promissory note issued on July 22, 2004, in the amount of \$322,500 and was secured by a mortgage on the building. The terms of the note had a maturity date of June 1, 2009. Interest on this promissory note was variable and was 8.47% as of June 30, 2008. The loan was paid off with proceeds of the tax-exempt development revenue bonds during the year ended June 30, 2008. Total interest expense for the year ended June 30, 2008 was \$11,143.

The Note Payable #3 from Huntington Bank was a promissory note issued on July 26, 2006, in the amount of \$720,000 and was 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 was variable and was 7.67% as of June 30, 2008. The loan was paid off with proceeds of the tax-exempt development revenue bonds during the year ended June 30, 2008. Total interest expense for the year ended June 30, 2008 was \$33,359.

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 \$33,000 and \$84,000 is paid in full by December 1, 2012 and 2013, respectively, there shall be no interest charged. Effective, December 1, 2013, an annual interest rate of prime minus 1% will be charged on the outstanding principal balance. There were no interest payments for fiscal year 2008.

The line of credit from Huntington Bank is an operating line of credit that was issued on July 22, 2004, in the amount of \$50,000 and is unsecured. Additional draws were made and also paid in full during fiscal year 2008. Interest on the line of credit is variable and was 5.5% as of June 30, 2008. During October 2008, the line of credit was increased to \$150,000. Total interest expense for the year ended June 30, 2008 was \$3,172.

The capital leases are described in a separate note.

TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2008

(14) CAPITAL LEASE – LESSEE DISCLOSURE

The School entered into capitalized leases for the acquisition of musical instruments during fiscal year 2004. During fiscal year 2008, the school entered into additional leases for musical instruments and computers. 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 \$105,028. Related accumulated depreciation was \$48,197 at June 30, 2008.

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, 2008. The remaining capital lease payable balance was \$45,602 at June 30, 2008. Payments for principal and interest totaled \$23,797 for the fiscal year ended June 30, 2008.

<u>Fiscal Year Ending June 30.</u>	<u>Amount</u>
2009	\$ 23,796
2010	21,320
2011	2,413
2012	<u>2,413</u>
Total Minimum Lease Payment	49,942
Less: Amount Representing Interest	<u>(4,340)</u>
Total	<u>\$ 45,602</u>

(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 was terminated without penalty in August 2008. Lease payments totaled \$23,954 for the year. At year-end, all rent owed to the lessor was paid in full.

The School entered into an operating lease with Melkonian Investments for office and storage space located at 333 14th Street, Toledo, Ohio 43604. The period commenced in August 2007 and ended on August 2008. Lease payments total \$12,000 for the year. At year end, all rent owed to the lessor was paid in full.

(16) MANAGEMENT'S PLAN

The School has a positive net asset balance of \$234,743 for the fiscal year ended June 30, 2008 and had an operating loss of \$398,107. The School also showed an increase in its net asset balance by \$280,142 from fiscal year 2007. The School continues to analyze operations, maximize admissions, and focus on alternate sources of funding in its plan. Based on the State of Ohio Educational funding, the School expects to annually experience an operating loss. Only through community support and grant funding will management be able to manage its net asset balances.

TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2008

(16) MANAGEMENT'S PLAN (CONTINUED)

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.

Compiled financial statements are discussed and approved monthly by the Board of Directors. Another key to the financial success of the School is the effectiveness of its Development Office. The Development Office has shown that it can creatively campaign throughout the community to bring contributions to the School despite the difficult economic climate.

Toledo School for the Arts current full-time equivalent student enrollment as of the subsequent school year has exceeded 508 students. There is an active waiting list of 212 students. Within the next two or three years, management expects to reach its optimal goal of 560 students which when reached will most efficiently hold placements for all registered students in grades 6 through 12.

Management's success this year in eliminating its accumulated deficit speaks volumes of its dedication and active efforts towards fiscal responsibility. Only through the continued support from our community and those who appreciate what "works" in educating our children, will Toledo School for the Arts be allowed to continue its mission of helping students interested in becoming life-long learners.

(17) RELATED PARTY TRANSACTION

Two school employees have spouses on the Governing Board. During the fiscal year ended June 30, 2008, the School paid these employees \$15,904 in wages and benefits. An independent contractor has a spouse on the Governing Board. During the fiscal year ended June 30, 2008, the School paid this contractor \$2,900.

(18) ACCOUNTABILITY AND COMPLIANCE

For fiscal year 2008, the School has implemented GASB Statement No. 45, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions", GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues", and GASB Statement No. 50, "Pension Disclosures."

GASB Statement No. 45 establishes uniform standards of financial reporting for other postemployment benefits and increases the usefulness and improves the faithfulness of representations in the financial reports. The implementation of GASB Statement No. 45 did not have an effect on the financial statements of the School; however, certain disclosures related to postemployment benefits (see Note 8) have been modified to conform to the new reporting requirements.

TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2008

(18) ACCOUNTABILITY AND COMPLIANCE (CONTINUED)

GASB Statement No. 48 establishes criteria to ascertain whether certain transactions should be regarded as sales or as collateralized borrowings, as well as disclosure requirements for future revenues that are pledged and sold. The implementation of GASB Statement No. 48 did not have an effect on the financial statements of the School.

GASB Statement No. 50 establishes standards that more closely align the financial reporting requirements for pensions with those of other postemployment benefits. The implementation of GASB Statement No. 50 did not have an effect on the financial statements of the School.

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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, 2008, and have issued our report thereon dated March 24, 2009. 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 Finding 2008-001 to be a significant deficiency 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, the significant deficiency that is described above, we consider to be 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 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 one instance of noncompliance or other matters that are required to be reported under Government Auditing Standards. This noncompliance citation is finding 2008-002.

We noted a certain matter that we reported to the School's management in a separate letter dated March 24, 2009.

The School's responses to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the School's responses and, accordingly, we express no opinion on it.

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.

Seublin Sussman Group LLP

March 24, 2009
Toledo, Ohio

TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2008

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

FINDING NUMBER 2008-001

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 during the cash to accrual conversion resulted in material misstatements to the financial statements and had to be corrected. We recommend the School review these entries to make sure they are being recorded properly.

Officials' Response: The School needs to ensure that journal entries are being properly posted and the financial statements are not materially misstated. Management will consider if there is a need to engage an outside accountant with proper knowledge in drafting the proper journal entries necessary to keep the financial statements from being materially misstated.

FINDING NUMBER 2008-002

Noncompliance Citation - School's Bonds Exceed Fifteen Year Limitation

Ohio Revised Code 3314.08(J)(1)(b) states that a community school may borrow money for a term not to exceed fifteen years to acquire facilities. During fiscal year 2008, the school issued bonds with a term of 20 years. These bonds exceed the fifteen year term as described in the Ohio Revised Code.

Officials' Response: Since the creation of the laws governing the formation and existence of public community schools in the State of Ohio, the laws have always included a directive that no debt instruments obligating the schools were to exceed 15 years. Yet, the State of Ohio provides ZERO dollars to aid its public community schools in securing and maintaining their facilities, unlike the real estate tax millage allotted to traditional public schools. Given the millions of dollars required to secure a proper school facility today, and the competitive environment in our community from a multi-billion dollar Toledo Public Schools replacement project, management felt it could request exception, from the State of Ohio, for exceeding its 15-year directive with its Lucas County Port Authority Bond refinancing project. Currently the obligation on all accounts is for 15 years from issuance of the bond, with a provision to extend the term should the State of Ohio grant the exception. For this complete bond refinancing project to be successful, management's bonding consultants recommended an overall term of at least 20 years.

TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY
SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2008

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2007-001	Significant Deficiency: The School did not properly handle food service receipts.	Yes	
2007-002	Material Weakness: Detection of Material Misstatement	No	Repeated as finding 2008-001



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 7, 2009**