TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY

REGULAR AUDIT

FOR THE FISCALYEAR ENDED JUNE 30, 2015

Dave Yost • Auditor of State

TOLEDO SCHOOL FOR THE ARTS
LUCAS COUNTY

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INDEPENDENT AUDITOR'S REPORT

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

To the Governing Board:

Report on the Financial Statements

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, 2015, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the School's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

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, 2015, and the

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changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, during the year ended June 30, 2015, the School adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* and schedules of net pension liabilities and pension contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 3, 2016, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Dave Yost
Auditor of State

Columbus, Ohio

June 3, 2016

The discussion and analysis of Toledo School for the Arts (TSA) financial performance provides an overall review of TSA's financial activities for the fiscal year ended June 30, 2015. Readers should also review the basic financial statements and notes to enhance their understanding of TSA's financial performance.

Highlights

For the fiscal year ended June 30, 2015, TSA's net position increased $670,721, or 12 percent from the prior fiscal year. Revenues increased 7 percent largely due to an increase in donations. Expenses increased less than 3 percent, which was not significant, with the largest increase related to staff compensation.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements.

The statement of net position and the statement of revenues, expenses, and change in net position reflect how TSA did financially during fiscal year 2015. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

These statements report TSA's net position and change in net position. This change in net position is important because it tells the reader whether the financial position of TSA has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating.

Table 1 provides a summary of TSA's net position for fiscal year 2015 and fiscal year 2014:

Table 1
Net Position

	2015	2014	Change
Assets			
Current Assets	$1,516,331	$1,411,463	$104,868
Non-Current Assets (excluding capital assets)	554,841	478,595	76,246
Capital Assets, Net	5,507,406	4,218,446	1,288,960
Total Assets	7,578,578	6,108,504	1,470,074
Deferred Outflows of Resources			
Pension	510,430	407,860	102,570

(continued)

Table 1
Net Position
(continued)

	2015	2014	Change
Liabilities			
Current Liabilities	$770,635	$640,759	($129,876)
Non-Current Liabilities			
Pension	6,743,743	8,015,191	1,271,448
Other Amounts	4,060,339	3,231,834	(828,505)
Total Liabilities	11,574,717	11,887,784	313,067
Deferred Inflows of Resources			
Pension	1,222,487	0	(1,222,487)
Other Amounts	88,601	96,098	7,497
Total Deferred Inflows of Resources	1,311,088	96,098	(1,214,990)
Net Position			
Net Investment in Capital Assets	1,626,540	1,235,779	390,761
Restricted	388,438	389,017	(579)
Unrestricted (Deficit)	(6,811,775)	(7,092,314)	280,539
Total Net Position (Deficit)	($4,796,797)	($5,467,518)	$670,721

During fiscal year 2015, TSA implemented Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions", which significantly revises accounting for pension costs and liabilities. For reasons discussed below, end users of these financial statements will gain a clearer understanding of the School District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

GASB standards are national standards and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB Statement No. 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability. GASB Statement No. 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and State law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB Statement No. 68, the net pension liability equals TSA's proportionate share of each plan's collective present value of estimated future pension benefits attributable to active and inactive employees' past service minus plan assets available to pay these benefits.

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange", that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system against the public employer. State law operates to mitigate/lessen the moral obligation of the public employer as to the employee because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or in the case of compensated absences (i.e. vacation and sick leave) are satisfied through paid time off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability but are outside the control of TSA. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB Statement No. 68, TSA's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's change in net pension liability not accounted for as deferred outflows/inflows.

As a result of implementing GASB Statement No. 68, TSA is reporting a net pension liability and deferred outflows/inflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014, from $2,184,813 to ($5,467,518).

The increase in current assets was primarily due to an increase in cash and cash equivalents and largely due to an increase in donations. The increase in net capital assets is the result of equipment acquisitions and building renovations/additions. The addition of a new loan in fiscal year 2015 contributed to the increase in both current and other long-term liabilities.

Table 2 reflects the change in net position for fiscal year 2015 and fiscal year 2014.

Table 2
Change in Net Position

	2015	2014	Change
Operating Revenues			
Foundation	$4,734,587	$4,716,745	$17,842
Sales	292,508	297,848	(5,340)
Tuition and Fees	11,507	15,380	(3,873)
Other Operating Revenues	119,264	31,493	87,771
Total Operating Revenues	5,157,866	5,061,466	96,400
Non-Operating Revenues			
Operating Grants	427,438	459,285	(31,847)
Contributions and Donations	1,125,879	758,992	366,887
Interest Revenue	133	110	23
Total Non-Operating Revenues	1,553,450	1,218,387	335,063
Total Revenues	6,711,316	6,279,853	431,463
Operating Expenses			
Salaries	3,235,291	3,040,174	(195,117)
Fringe Benefits	864,658	889,623	24,965
Purchased Services	836,206	926,664	90,458
Materials and Supplies	570,118	657,624	87,506
Depreciation	211,463	114,898	(96,565)
Other Operating Expenses	80,328	67,340	(12,988)
Total Operating Expenses	5,798,064	5,696,323	(101,741)
Non-Operating Expenses			
Interest Expense	242,531	188,231	(54,300)
Total Expenses	6,040,595	5,884,554	(156,041)
Increase in Net Position	670,721	395,299	275,422
Net Position (Deficit) at Beginning of Year	(5,467,518)	N/A	
Net Position (Deficit) at End of Year	($4,796,797)	($5,467,518)	$670,721

The information necessary to restate the fiscal year 2014 beginning balance and the fiscal year 2014 pension expense amounts for the effects of the initial implementation of GASB Statement No. 68 is not available. Therefore, fiscal year 2014 functional expenses still include pension expense of $407,860 computed under GASB Statement No. 27. GASB Statement No. 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB Statement No. 68, pension expense represents additional amounts earned adjusted by deferred outflows/inflows. The contractually required contribution is no longer a component of pension expense. Under GASB Statement No. 68, the fiscal year 2015 statements report pension expense of $295,211. Consequently, in order to compare fiscal year 2015 total program expenses to fiscal year 2014, the following adjustments are needed.

Total 2015 Program Expenses under GASB Statement No. 68	$6,040,595
Pension Expense under GASB Statement No. 68	(295,211)
2015 Contractually Required Contribution	446,742
Adjusted 2015 Program Expenses	6,192,126
Total 2014 Program Expenses under GASB Statement No. 27	(5,884,554)
Increase in Program Expenses not Related to Pension	$307,572

The 7 percent increase in total revenues is generally due to the continuing funding campaign.

The overall increase in expenses was not significant (less than 3 percent) and largely related to compensation increases and depreciation.

Budgeting

TSA is not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705.

Capital Assets

At the end of fiscal year 2015, TSA had $5,507,406 invested in capital assets (net of accumulated depreciation). Additions were primarily building improvements. For further information regarding TSA's capital assets, refer to Note 6 to the basic financial statements.

Debt Administration

At the end of fiscal year 2015, TSA had outstanding development revenue bonds, in the amount of $2,889,168, and outstanding loans, in the amount of $1,339,024. Final maturity on the revenue bonds is in fiscal year 2028. Long-term obligations also include the net pension liability and capital leases. For further information regarding TSA's long-term obligations, refer to Notes 12 and 13 to the basic financial statements.

Current Issues

Bowling Green State University initially adopted the sponsorship contract of TSA for a period of four years, from July 1, 2008, through June 30, 2012. The sponsorship agreement was renewed in the spring of 2012 for an additional five years through June 30, 2017.

The Toledo Community Foundation houses an endowment fund for the Toledo School for the Arts. Established in July 2008, the purpose of this endowment is to provide funding for programs which would not otherwise be available through federal, state, or local sources. The balance of the endowment on June 30, 2015, was $130,345.

As a leader in arts-based learning, TSA has undertaken a major campaign entitled Technology, Arts, and Industry (TAI). This campaign immediately touched every student at TSA. In August 2013, we moved from traditional textbook instruction to one-to-one digital devices (iPads) and plan to expand our use of other forms of digital technology in our classrooms. This campaign has also connected our students to the arts industries around us through developing expanded course offerings in scenic design and construction, recording technology, costume and fashion design, film/video, glass, screen printing, and business fundamentals. These courses will prepare students to pursue jobs throughout the arts and entertainment industry. Funds received from TAI pledges allowed for building modification in Phase II of construction including two new restrooms, new exterior walls and doors in the Student Commons, and a Textile Arts Studio. Substantial investments were made in digital media software for the Recording Studio and Digital Arts Lab. New hallway lighting and flooring materials were also installed throughout the second floor. As the campaign continues, further enhancements to the classrooms and programs will be made to allow students to gain real world knowledge in the workings of the arts and entertainment industry.

After a sixteen year leadership roll, Director Martin D. Porter retired on June 30, 2015, and Dr. Douglas Mead has stepped in to lead the organization. Other administration positions remain allowing for flawless day to day operations and a smooth transition in leadership. Dr. Mead and Board President Bill Bostleman are directing a strategic plan along with the administration and board and should show results in long-term planning within a few months.

Contacting TSA's Financial Management

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of TSA's finances and to reflect TSA's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Kelley Allred, Treasurer, Toledo School for the Arts, 333 14th Street, Toledo, Ohio, 43604.

Toledo School for the Arts
Statement of Net Position
June 30, 2015

Current Assets	
Cash and Cash Equivalents	$978,225
Accounts Receivable	15,612
Intergovernmental Receivable	121,206
Restricted Assets:	
Cash and Cash Equivalents with Fiscal Agent	13,438
Pledges Receivable	387,850
Total Current Assets	1,516,331
Non-Current Assets	
Restricted Assets:	
Cash and Cash Equivalents	69,491
Cash and Cash Equivalents with Fiscal Agent	375,000
Pledges Receivable	110,350
Nondepreciable Capital Assets	106,368
Depreciable Capital Assets, Net	5,401,038
Total Non-Current Assets	6,062,247
Total Assets	7,578,578
Deferred Outflows of Resources	
Pension	510,430
Current Liabilities	
Accounts Payable	1,151
Contracts Payable	10,520
Accrued Wages and Benefits Payable	428,039
Intergovernmental Payable	94,523
Accrued Interest Payable	40,875
Development Revenue Bonds Payable	130,833
Loans Payable	58,316
Capital Leases Payable	6,378
Total Current Liabilities	770,635
Non-Current Liabilities	
Development Revenue Bonds Payable	2,758,335
Loans Payable	1,280,708
Net Pension Liability	6,743,743
Capital Leases Payable	21,296
Total Non-Current Liabilities	10,804,082
Total Liabilities	11,574,717
Deferred Inflows of Resources	
Unavailable Revenue	88,601
Pension	1,222,487
Total Deferred Inflows of Resources	1,311,088
Net Position	
Net Investment in Capital Assets	1,626,540
Restricted for:	
Current Debt Service	13,438
Future Debt Service	375,000
Unrestricted (Deficit)	(6,811,775)
Total Net Position (Deficit)	($4,796,797)

See Accompanying Notes to Basic Financial Statements

Toledo School for the Arts
Statement of Revenues, Expenses, and Change in Net Position
For the Fiscal Year Ended June 30, 2015

Operating Revenues	
Foundation	$4,734,587
Sales	292,508
Tuition and Fees	11,507
Other Operating Revenues	119,264
Total Operating Revenues	5,157,866
Operating Expenses	
Salaries	3,235,291
Fringe Benefits	864,658
Purchased Services	836,206
Materials and Supplies	570,118
Depreciation	211,463
Other Operating Expenses	80,328
Total Operating Expenses	5,798,064
Operating Loss	(640,198)
Non-Operating Revenues (Expenses)	
Grants	427,438
Contributions and Donations	1,125,879
Interest Revenue	133
Interest Expense	(242,531)
Total Non-Operating Revenues (Expenses)	1,310,919
Change in Net Position	670,721
Net Position at Beginning of Year - Restated (Note 3)	(5,467,518)
Net Position at End of Year (Deficit)	($4,796,797)

See Accompanying Notes to the Basic Financial Statements

Toledo School for the Arts
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2015

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Foundation	$4,735,747
Cash Received from Sales	285,928
Cash Received from Tuition and Fees	11,507
Cash Received from Other Revenues	91,812
Cash Payments for Salaries	(3,222,547)
Cash Payments for Fringe Benefits	(1,005,350)
Cash Payments for Goods and Services	(1,406,603)
Cash Payments for Other Expenses	(80,328)
Net Cash Used for Operating Activities	(589,834)
Cash Flows from Noncapital Financing Activities	
Cash Received from Grants	401,699
Cash Received from Contributions and Donations	858,634
Net Cash Provided by Noncapital Financing Activities	1,260,333
Cash Flows from Capital and Related Financing Activities	
Principal Paid on Development Revenue Bonds	(125,833)
Interest Paid on Development Revenue Bonds	(181,447)
Principal Paid on Loans	(22,428)
Interest Paid on Loans	(33,356)
Lease Principal	(5,139)
Lease Interest	(1,370)
Loans Issued	1,018,786
Acquisition of Capital Assets	(1,457,090)
Net Cash Used for Capital and Related Financing Activities	(807,877)
Cash Flows from Investing Activities	
Cash Received from Interest	133
Net Decrease in Cash and Cash Equivalents	(137,245)
Cash and Cash Equivalents at Beginning of Year	1,573,399
Cash and Cash Equivalents at End of Year	$1,436,154

(continued)

Toledo School for the Arts
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2015
(continued)

Reconciliation of Operating Loss	
to Net Cash Used for Operating Activities	
Operating Loss	($640,198)
Adjustments to Reconcile Operating Loss	
to Net Cash Used for Operating Activities	
Depreciation	211,463
Changes in Assets and Liabilities:	
Increase in Accounts Receivable	(8,874)
Increase in Intergovernmental Receivable	(16,501)
Decrease in Accounts Payable	(379)
Increase in Accrued Wages and Benefits Payable	20,665
Increase in Intergovernmental Payable	3,018
Decrease in Deferred Outflows of Resources	(7,497)
Decrease in Net Pension Liability	(1,271,448)
Increase in Deferrred Outflows of Resources - Pension	(102,570)
Increase in Deferred Inflows of Resources - Pension	1,222,487
Net Cash Used for Operating Activities	($589,834)

See Accompanying Notes to the Basic Financial Statements

Toledo School for the Arts
Statement of Fiduciary Assets and Liablilities
Fiduciary Funds
June 30, 2015

	Private Purpose Trust	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	$46,244	$18,854
Liabilities		
Due to Students	0	$18,854
Net Position		
Held in Trust for Scholarships	$46,244	

See Accompanying Notes to the Basic Financial Statements

Toledo School for the Arts
Statement of Change in Fiduciary Net Position
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2015

	Private Purpose Trust
Additions	
Contributions and Donations	$36,022
Deductions	
Non-Instructional Services	50,840
Change in Net Position	(14,818)
Net Position at Beginning of Year	61,062
Net Position at End of Year	$46,244

See Accompanying Notes to the Basic Financial Statements

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Note 1 - Description of the School

Toledo School for the Arts (TSA) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. TSA 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 TSA's tax exempt status. TSA'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. TSA encompasses a safe community environment, discovery based methods, parenting education, critical thinking, and problem solving. TSA's programs are currently available to students in grades 6 through 12. TSA, 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. TSA may acquire facilities as needed and contract for any services necessary for the operation of TSA.

TSA was approved for operation under a contract with Bowling Green State University (the Sponsor) for a period of five years commencing July 1, 2012. The Sponsor is responsible for evaluating the performance of TSA and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

TSA operates under the direction of a twenty-one 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. It is staffed by eighteen classified employees, forty-nine certified teaching personnel, and eight administrative employees who provide services to six hundred seventy-two students and other community members.

Note 2 - Summary of Significant Accounting Policies

The basic financial statements of TSA have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Following are the more significant of the TSA's accounting policies.

A. Basis of Presentation

TSA's basic financial statements consist of a statement of net position; a statement of revenues, expenses, and change in net position, and a statement of cash flows.

TSA uses enterprise accounting to maintain its financial records during the fiscal year. Enterprise accounting focuses on the determination of operating income, change in net position, financial position, and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods or services.

Note 2 - Summary of Significant Accounting Policies (continued)

TSA also maintains two fiduciary funds. Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by TSA under a trust agreement for individuals, private organizations, or other governments and are not available to support TSA'S own programs. TSA's private purpose trust fund accounts for programs that provide college scholarships to students after graduation. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. TSA's agency fund accounts for various non-instructional student-managed activities.

B. Measurement Focus

TSA is accounted for using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of TSA are included on the statement of net position. The statement of revenues, expenses, and change in net position presents increases (e.g., revenues) and decreases (e.g., expenses) in total net position. The statement of cash flows reflects how TSA finances and meets its cash flow needs.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. TSA's financial statements are prepared using the accrual basis of accounting. Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded when the exchange takes place. Revenues resulting from nonexchange transactions, in which TSA receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which TSA must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to TSA on a reimbursement basis.

In addition to assets, the statement of financial position may report deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that time. For TSA, deferred outflows of resources are reported on the government-wide statement of net position for pension and explained in Note 9 to the basic financial statements.

In addition to liabilities, the statement of financial position may report deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For TSA, deferred inflows of resources consists of unavailable revenue and pension. Unavailable revenue consists of registration fees. These amounts are deferred and recognized as inflows of resources in the period when the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position and explained in Note 9 to the basic financial statements.

Expenses are recognized at the time they are incurred.

Note 2 - Summary of Significant Accounting Policies (continued)

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided by TSA's contract with its Sponsor. The contract between TSA and its Sponsor does prescribe a budget requirement.

E. Cash and Cash Equivalents

Cash held by TSA is reflected as "Cash and Cash Equivalents" on the statement of net position. Investments with an original maturity of three months or less at the time they are purchased are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months are reported as investments. During fiscal year 2015, TSA invested in mutual funds which are reported at fair value. Fair value is based on current share price.

Cash and cash equivalents that are held separately with the Bank of New York are recorded as "Cash and Cash Equivalents with Fiscal Agent".

F. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws of other governments, or imposed by law through constitutional provisions.

Restricted assets represent certain resources which are segregated from other resources of TSA to comply with various covenants established by bond financing agreements. These assets are generally held in separate accounts of TSA or by a trustee. The various covenants place restrictions on the use of these resources, require minimum balances to be maintained in certain accounts, and establish annual amounts to be accumulated for specific purposes.

G. Capital Assets

All capital assets are capitalized at cost and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their fair market value on the date donated. TSA maintains a capitalization threshold of five thousand dollars. TSA does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All capital assets, except land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Useful Lives
Buildings and Building Improvements	15 - 50 years
Furniture, Fixtures, and Equipment	5-40 years
Vehicles	15 years

Note 2 - Summary of Significant Accounting Policies (continued)

H. Net Position

Net position represents the difference between all other elements on the statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. TSA first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

I. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of TSA. For TSA, these revenues are generally foundation payments from the State. TSA also received operating revenues from sales (ticket and store sales) and from tuition and fees. Operating expenses are necessary costs incurred to provide the service that is the primary activity of TSA. All revenues and expenses not meeting this definition are reported as non-operating.

J. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans, and additions to/deductions from their fiduciary net positon have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

K. Estimates

The preparation of 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.

Note 3 - Change in Accounting Principle and Restatement of Net Position

For fiscal year 2015, TSA has implemented Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68". GASB Statement No. 68 established standards for measuring and recognizing pension liabilities, deferred outflows and deferred inflows of resources, and pension expenses.

Note 3 - Change in Accounting Principle and Restatement of Net Position (continued)

The implementation of this statement had the following effect on net position as previously reported on June 30, 2014.

Net Position June 30, 2014	$2,184,813
Net Pension Liability	(8,015,191)
Deferred Outflows - Payments Subsequent to Measurement Date	407,860
Restated Net Position June 30, 2014	($5,467,518)

Other than employer contributions subsequent to the measurement date, TSA made no restatement for deferred outflows or deferred inflows of resources as the information needed to generate these restatements was not available.

Note 4 - Deposits and Investments

At fiscal year end, the carrying amount of TSA's deposits was $1,056,761 and the bank balance was $1,355,421 of which $841,983 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject TSA to a successful claim by the FDIC.

As of June 30, 2015, TSA's investments consisted of mutual funds, in the amount of $375,000. The mutual funds had a AAA rating from Moody's and an average maturity of 36 days. TSA has no policy addressing interest rate risk.

Note 5 - Receivables

Receivables at June 30, 2015, consisted of accounts, intergovernmental, and pledges receivable. Most intergovernmental receivables are considered collectible due to the stable condition of State programs and the current year guarantee of federal funds. All receivables, except pledges, are expected to be collected within one year. Pledges, in the amount of $110,350, will not be received within one year.

A summary of the principal items of intergovernmental receivables follows:

	Amount
School Employees Retirement System	$16,501
Idea Part-B	33,511
Title I	62,887
Title II-A	8,307
Total Intergovernmental Receivables	$121,206

Note 6 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

	Balance at 6/30/14	Additions	Reductions	Balance at 6/30/15
Nondepreciable Capital Assets				
Land	$58,300	$0	$0	$58,300
Construction in Progress	354,366	1,467,610	(1,773,908)	48,068
Total Nondepreciable Capital Assets	412,666	1,467,610	(1,773,908)	106,368
Depreciable Capital Assets				
Buildings and Building Improvements	4,688,465	1,773,908	0	6,462,373
Furniture, Fixtures, and Equipment	41,791	32,813	(11,992)	62,612
Vehicles	10,670	0	0	10,670
Total Depreciable Capital Assets	4,740,926	1,806,721	(11,992)	6,535,655
Less Accumulated Depreciation				
Buildings and Building Improvements	(891,562)	(209,955)	0	(1,101,517)
Furniture, Fixtures, and Equipment	(42,162)	(796)	11,992	(30,966)
Vehicles	(1,422)	(712)	0	(2,134)
Total Accumulated Depreciation	(935,146)	(211,463)	11,992	(1,134,617)
Depreciable Capital Assets, Net	3,805,780	1,595,258	0	5,401,038
Capital Assets, Net	$4,218,446	$3,062,868	($1,773,908)	$5,507,406

Note 7 - Risk Management

TSA 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. During fiscal year 2015, TSA contracted for the following insurance coverage:

Coverage provided by The Netherlands Insurance Company is as follows:	
Building and Contents	$3,767,641
General School District Liability	
Per Occurrence	1,000,000
Total Per Year	2,000,000
Automobile Liability	1,000,000
Uninsured Motorists	1,000,000
Coverage provided by The Midwestern Indemnity Company is as follows:	
Umbrella Liability	2,000,000

Note 7 - Risk Management (continued)

Settled claims have not exceeded this commercial coverage for the past three fiscal years and there has been no significant reduction in insurance coverage from the prior fiscal year.

Workers' compensation coverage is provided by the State of Ohio. TSA pays the State Workers' Compensation System a premium based on a rate per $100 of salaries. This rate is calculated based on accident history and administrative costs.

Note 8 - Contractual Commitments

At June 30, 2015, TSA had outstanding contracts for professional services as follows:

Company	Amount Remaining on Contract
Gem, Inc.	$19,276
Lakeside Interior Contractors	25,578
Stony Creek Services, Inc.	15,400
Thomas Porter Architects	4,643
Toledo Glass LLC	13,961
TriState Industrial Floors, Inc.	9,325

Note 9 - Defined Benefit Pension Plans

Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions, between an employer and its employees, of salaries and benefits for employee services. Pensions are provided to an employee on a deferred payment basis as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that have already occurred.

The net pension liability represents TSA's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables including estimated average life expectancies, earnings on investments, cost of living adjustments, and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Note 9 - Defined Benefit Pension Plans (continued)

The Ohio Revised Code limits TSA's obligation for this liability to annually required payments. TSA cannot control benefit terms or the manner in which pensions are financed; however, TSA does receive the benefit of employees' services in exchange for compensation, including pension.

GASB Statement No. 68 assumes the liability is solely the obligation of the employer because (1) they benefit from employee services, and (2) State statute requires all funding to come from the employers. All contributions to date have come solely from the employer (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within thirty years. If the amortization period exceeds thirty years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term net pension liability on the accrual basis of accounting. Any liability for the contractually required pension contribution outstanding at the end of the fiscal year is included as an intergovernmental payable on both the accrual and modified accrual basis of accounting.

Plan Description - School Employees Retirement System (SERS)

Plan Description - TSA classified employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available stand-alone financial report that includes financial statements, required supplementary information, and detailed information about SERS' fiduciary net position. The report can be obtained by visiting the SERS website at www.ohsers.org under employers/audit resources.

Age and service requirements for retirement are as follows.

	Eligible to retire on or before August 1, 2017 *	Eligible to retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit; Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; Age 60 with 25 years of service credit

* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on years of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service over thirty years. Final average salary is the average of the highest three years of salary.

Note 9 - Defined Benefit Pension Plans (continued)

One year after an effective benefit date, a benefit recipient is entitled to a 3 percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining .82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

TSA's contractually required contribution to SERS was $90,779 for fiscal year 2015. Of this amount, $16,450 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

Plan Description - TSA licensed teachers and other certified faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a publicly available stand-alone financial report that includes financial statements, required supplementary information, and detailed information about STRS' fiduciary net position. The report can be obtained by writing to STRS, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (888) 227-7877, or by visiting the STRS website at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). Benefits are established by Ohio Revised Code Chapter 3307. The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by 2 percent of the original base benefit. For members retiring August 1, 2013, or later, the first 2 percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age sixty with five years of qualifying service credit, at age fifty-five with twenty-five years of service credit, or thirty years of service credit regardless of age. Age and service requirements for retirement increased effective August 1, 2015, and will continue to increase periodically until they reach age sixty with thirty-five years of service or age sixty-five with five years of service on August 1, 2026.

The DCP allows members to place all their member contributions and 9.5 percent of the 14 percent employer contribution into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age fifty and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

Note 9 - Defined Benefit Pension Plans (continued)

The CP offers features of both the DBP and the DCP. In the CP, member contributions are allocated among investment choices by the member and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DBP. The defined benefit portion of the CP payment is payable to a member on or after age sixty with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age fifty.

New members who choose the DCP or CP will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's CP account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB Statement No. 68 reporting purposes.

A DBP or CP member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DCP who become disabled are entitled only to their account balance. If a member of the DCP dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased 1 percent on July 1, 2014, and will be increased 1 percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. TSA was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

TSA's contractually required contribution to STRS was $355,963 for fiscal year 2015. Of this amount, $62,000 is reported as an intergovernmental payable.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. TSA's proportion of the net pension liability was based on TSA's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense.

	SERS	STRS	Total
Proportionate Share of the Net Pension Liability	$1,107,031	$5,636,712	$6,743,743
Proportion of the Net Pension Liability	0.02187400%	0.02317397%	
Pension Expense	68,239	226,972	295,211

Note 9 - Defined Benefit Pension Plans (continued)

At June 30, 2015, TSA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	$9,422	$54,266	$63,688
TSA contributions subsequent to the measurement date	90,779	355,963	446,742
Total Deferred Outflows of Resources	100,201	410,229	510,430
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	$179,674	$1,042,813	$1,222,487

$446,742 reported as deferred outflows of resources related to pension resulting from TSA contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as pension expense as follows:

	SERS	STRS	Total
Fiscal Year Ended June 30,			
2016	($42,539)	($247,137)	($289,676)
2017	(42,539)	(247,137)	(289,676)
2018	(42,539)	(247,137)	(289,676)
2019	(42,635)	(247,136)	(289,771)
Total	($170,252)	($988,547)	($1,158,799)

Actuarial Assumptions - SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67 as part of the annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Note 9 - Defined Benefit Pension Plans (continued)

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation prepared as of June 30, 2014, are presented below.

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investment expenses, including inflation
Actuarial Cost Method	entry age normal

For postretirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

The long-term return expectation for the pension plan investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00%	0.00%
U.S. Stocks	22.50	5.00
Non-U.S. Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
Total	100.00%	

Note 9 - Defined Benefit Pension Plans (continued)

Discount Rate - The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of TSA's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - Net pension liability is sensitive to changes in the discount rate and to illustrate the potential impact, the following table presents the net pension liability calculated using the discount rate of 7.75 percent as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent) or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
TSA's Proportionate Share of the Net Pension Liability	$1,579,404	$1,107,031	$709,724

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement.

Inflation	2.75 percent
Projected Salary Increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost of Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022-Scale AA) for males and females. Males' ages are set back two years through age eigty-nine and no set back for age ninety and above. Females younger than age eighty are set back four years, one year set back from age eighty through eighty-nine, and no set back for age ninety and above.

Actuarial assumptions used in the June 30, 2014, valuation are based on the results of an actuarial experience study effective July 1, 2012.

Note 9 - Defined Benefit Pension Plans (continued)

The ten year expected real rate of return on pension plan investments was determined by the STRS investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31.00%	8.00%
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
	100.00%	

Discount Rate - The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2014.

Sensitivity of TSA's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents TSA's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent as well as what TSA's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent) or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
TSA's Proportionate Share of the Net Pension Liability	$8,069,567	$5,636,712	$3,579,334

Note 10 - Postemployment Benefits

School Employees Retirement System (SERS)

Health Care Plan Description - TSA contributes to the SERS Health Care Fund administered by SERS for classified retirees and their beneficiaries. For GASB Statement No. 45 purposes, this plan is considered a cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained by visiting the SERS' website at www.ohsers.org under employers/audit resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. 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.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2015, .82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2015, this amount was $20,450. State statute provides that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS covered payroll for the health care surcharge. For fiscal year 2015, the School District's surcharge obligation was $8,615.

TSA's contribution for health care for the fiscal years ended June 30, 2015, 2014, and 2013 was $5,532 $839, and $824, respectively. For fiscal year 2015, 83 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2014 and 2013.

State Teachers Retirement System (STRS)

Plan Description - TSA participates in the cost-sharing multiple-employer defined benefit health care plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer the plan. Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare Part B premiums. The Plan is included in the STRS financial report which can be obtained by visiting the STRS website at www.strsoh.org or by calling (888) 227-7877.

Note 10 - Postemployment Benefits (continued)

Funding Policy - Ohio Revised Code Chapter 3307 authorizes STRS to offer the health care plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the health care plan. All benefit recipients for the most recent year pay a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions. For fiscal year 2015, STRS did not allocate any employer contributions to postemployment health care. TSA's contribution for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were $0, $24,079, and $21,981 respectively. The full amount has been contributed for all three fiscal years.

Note 11 - Other Employee Benefits

TSA provides medical benefits through Paramount, vision benefits through Vision Service Plan, and dental benefits through Delta Dental. The Board pays the entire monthly premium, except for part-time employees who pay a pro-rated portion for their benefits.

TSA also provides life insurance to active full-time employees through the Hartford Life Insurance Company.

Note 12 - Long-Term Obligations

Changes in TSA's long-term obligations during fiscal year 2015 were as follows:

	Balance at 6/30/14	Additions	Reductions	Balance at 6/30/15	Amounts Due Within One Year
Long-Term Obligations					
FY 2008 Development Revenue Bonds - 5.5%	$3,015,001	$0	$125,833	$2,889,168	$130,833
Loans Payable					
FY 2014 Loan - 4.9%	342,666	1,018,786	22,428	1,339,024	58,316
Net Pension Liability					
SERS	1,300,777	0	193,746	1,107,031	0
STRS	6,714,414	0	1,077,702	5,636,712	0
Total Net Pension Liability	8,015,191	0	1,271,448	6,743,743	0
Capital Leases Payable	0	32,813	5,139	27,674	6,378
Total Long-Term Obligations	$11,372,858	$1,051,599	$1,424,848	$10,999,609	$195,527

<u>FY 2008 Development Revenue Bonds</u> - On December 19, 2007, Toledo Lucas County Port Authority issued bonds on behalf of TSA, in the amount of $3,750,000, for building acquisition and improvement. Of this amount, $375,000 was not capitalized. The bonds were issued for a twenty year period, with final maturity in fiscal year 2028.

Note 12 - Long-Term Obligations (continued)

The bonds are subject to optional redemption, by and at the sole option of TSA, either in whole or in part and in integral multiples of $5,000, on any date on or after November 15, 2017, at a redemption price of 100 percent of the principal amount redeemed plus accrued interest to the redemption date.

The bonds are also subject to mandatory sinking redemption at a redemption price of 100 percent of the principal amount redeemed plus accrued interest to the redemption date, on each May 15 and November 15, in the following principal amounts and in the years specified:

Year	May 15 Principal Amount	November 15 Principal Amount
2008	$0	$40,000
2009	55,000	60,000
2010	60,000	60,000
2011	65,000	65,000
2012	65,000	70,000
2013	65,000	60,000
2014	60,000	60,000
2015	65,000	65,000
2016	65,000	70,000
2017	70,000	75,000
2018	75,000	80,000
2019	80,000	85,000
2020	85,000	85,000
2021	90,000	95,000
2022	95,000	100,000
2023	100,000	105,000
2024	110,000	110,000
2025	115,000	120,000
2026	120,000	125,000
2027	130,000	135,000
2028	515,000	0

FY 2014 Loan - On October 20, 2013, TSA obtained a loan from the Toledo Lucas County Port Authority for building acquisition and improvement. TSA received $342,666 in fiscal year 2014 and $1,018,786 in fiscal year 2015, for a total loan of $1,361,452. The loan was issued for a fourteen year period, with final maturity in fiscal year 2029.

<u>Note 12 - Long-Term Obligations</u> (continued)

Principal and interest requirements to retire outstanding long-term obligations at June 30, 2015, were as follows:

	Development Revenue Bonds	
Fiscal Year Ending June 30,	Principal	Interest
2016	$130,833	$173,114
2017	140,833	165,034
2018	150,833	156,348
2019	160,833	147,056
2020	170,000	137,158
2021-2025	1,010,835	792,608
2026-2028	1,125,001	148,521
Total	$2,889,168	$1,719,839

	Loans Payable	
Fiscal Year Ending June 30,	Principal	Interest
2016	$58,316	$63,693
2017	73,185	59,267
2018	76,661	55,791
2019	80,301	52,150
2020	84,114	48,337
2021-2025	484,419	177,833
2026-2029	482,028	51,041
Total	$1,339,024	$508,112

<u>Note 13 - Capital Leases - Lessee Disclosure</u>

TSA has entered into capitalized leases for equipment. Principal payments in fiscal year 2015 were $5,139.

	Governmental Activities
Equipment	$32,813
Less Accumulated Depreciation	(6,563)
Carrying Value at June 30, 2015	$26,250

Note 13 - Capital Leases - Lessee Disclosure (continued)

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2015.

	Governmental Activities	
Year	Principal	Interest
2016	$6,378	$1,314
2017	6,196	906
2018	6,507	595
2019	6,832	269
2019	1,761	14
Total	$27,674	$3,098

Note14 - Contingencies

A. Grants

TSA received financial assistance from federal and state agencies in the form of grants. The expenditure 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. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of TSA at June 30, 2015.

B. Litigation

There are currently no matters in litigation with TSA as defendant.

C. Full Time Equivalency

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by community 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. The conclusions of this review could result in State funding being adjusted.

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Toledo School for the Arts
Required Supplementary Information
Schedule of TSA's Proportionate Share of the Net Pension Liability
School Employees Retirement System of Ohio
Last Two Fiscal Years (1)

	2014	2013
TSA's Proportion of the Net Pension Liability	0.02187400%	0.02187400%
TSA's Proportionate Share of the Net Pension Liability	$1,107,031	$1,300,777
TSA's Covered Employee Payroll	$599,557	$515,023
TSA's Proportionate Share of the Net Pension Liability as a Percentage of Covered Employee Payroll	184.64%	252.57%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.70%	65.52%

(1) Information prior to 2013 is not available.

Amounts presented as of the TSA's measurement date which is prior fiscal year end.

Toledo School for the Arts
Required Supplementary Information
Schedule of TSA's Proportionate Share of the Net Pension Liability
State Teachers Retirement System of Ohio
Last Two Fiscal Years (1)

	2014	2013
TSA's Proportion of the Net Pension Liability	0.02317397%	0.02317397%
TSA's Proportionate Share of the Net Pension Liability	$5,636,712	$6,714,414
TSA's Covered Employee Payroll	$2,431,746	$2,123,638
TSA's Proportionate Share of the Net Pension Liability as a Percentage of Covered Employee Payroll	231.80%	316.18%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.70%	69.30%

(1) Information prior to 2013 is not available.

Amounts presented as of the TSA's measurement date which is prior fiscal year end.

Toledo School for the Arts
Required Supplementary Information
Schedule of TSA's Contributions
School Employees Retirement System of Ohio
Last Ten Fiscal Years

	2015	2014	2013	2012
Contractually Required Contribution	$90,779	$83,099	$71,279	$66,600
Contributions in Relation to the Contractually Required Contribution	(90,779)	(83,099)	(71,279)	(66,600)
Contribution Deficiency (Excess)	$0	$0	$0	$0
TSA's Covered Employee Payroll	$688,763	$599,557	$515,023	$495,165
Contributions as a Percentage of Covered Employee Payroll	13.18%	13.86%	13.84%	13.45%

2011	2010	2009	2008	2007	2006
$53,120	$38,953	$36,416	$27,379	$23,919	$16,396
(53,120)	(38,953)	(36,416)	(27,379)	(23,919)	(16,396)
$0	$0	$0	$0	$0	$0
$422,591	$287,692	$370,077	$278,810	$223,961	$154,972
12.57%	13.54%	9.84%	9.82%	10.68%	10.58%

Toledo School for the Arts
Required Supplementary Information
Schedule of TSA's Contributions
State Teachers Retirement System of Ohio
Last Ten Fiscal Years

	2015	2014	2013	2012
Contractually Required Contribution	$355,963	$316,127	$276,073	$260,304
Contributions in Relation to the Contractually Required Contribution	(355,963)	(316,127)	(276,073)	(260,304)
Contribution Deficiency (Excess)	$0	$0	$0	$0
TSA Covered Employee Payroll	$2,542,593	$2,431,746	$2,123,638	$2,002,338
Contributions as a Percentage of Covered Employee Payroll	14.00%	13.00%	13.00%	13.00%

2011	2010	2009	2008	2007	2006
$261,309	$240,378	$223,351	$203,593	$184,479	$184,941
(261,309)	(240,378)	(223,351)	(203,593)	(184,479)	(184,941)
$0	$0	$0	$0	$0	$0
$2,010,069	$1,849,062	$1,718,085	$1,566,100	$1,419,069	$1,422,623
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

To the Governing Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Toledo School for the Arts, Lucas County, Ohio (the School) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated June 3, 2016, wherein we noted the School adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27* and GASB Statement No. 71*, Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68.*

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the School's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the School's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dave Yost

Dave Yost
Auditor of State

Columbus, Ohio

June 3, 2016

Dave Yost • 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
JULY 5, 2016

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