AURORA ACADEMY
LUCAS COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2001

JIM PETRO
AUDITOR OF STATE
STATE OF OHIO

AURORA ACADEMY

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REPORT OF INDEPENDENT ACCOUNTANTS

Aurora Academy
Lucas County
541 Utah Street
Toledo, Ohio 43605

To the Governing Board:

We have audited the Balance Sheet of Aurora Academy, Lucas County, (Aurora) as of June 30, 2001, and the related Statement of Revenues, Expenses, and Changes in Retained Earnings, and the Statement of Cash Flows for the fiscal year ended June 30, 2001. These financial statements are the responsibility of Aurora'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 Aurora as of June 30, 2001, and the results of operations and its cash flows for the fiscal 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 May 21, 2002, on our consideration of Aurora's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Jim Petro
Auditor of State

May 21, 2002

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AURORA ACADEMY

BALANCE SHEET
AS OF JUNE 30, 2001

Assets	
Current Assets	
Cash and Cash Equivalents with Fiscal Agent	$340,130
Intergovernmental Receivables	126,253
Prepaid Items	14,056
Total Current Assets	480,439
Non-Current Assets	
Fixed Assets (Net of Accumulated Depreciation)	98,231
Total Assets	$578,670
Liabilities and Equity	
Current Liabilities	
Accounts Payable	$14,809
Accrued Wages	21,014
Intergovernmental Payable	11,227
Capital Lease Payable	4,718
Total Current Liabilities	51,768
Long-Term Liabilities	
Capital Lease Payable	20,225
Total Liabilities	71,993
Equity	
Retained Earnings	
Unreserved	506,677
Total Liabilities and Equity	$578,670

The notes to the financial statements are an integral part of this statement.

AURORA ACADEMY

**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

Operating Revenues	
Foundation Payments	$1,037,073
Disadvantaged Pupil Impact Aid	317,265
Food Services	1,759
Classroom Materials and Fees	910
Other Operating Revenues	4,010
Total Operating Revenues	1,361,017
Operating Expenses	
Salaries	1,000,441
Fringe Benefits	274,679
Purchased Services	268,561
Materials and Supplies	139,307
Depreciation	27,929
Other Operating Expenses	13,394
Total Operating Expenses	1,724,311
Operating Loss	(363,294)
Non-Operating Revenues (Expenses)	
Grants - Federal	188,016
Grants - State	53,487
Interest Earnings	18,889
Interest Expense and Fiscal Charges	(1,469)
Other Non-Operating Revenue	5,603
Total Non-Operating Revenues (Expenses)	264,526
Net Loss	(98,768)
Retained Earnings at Beginning of Year, As Restated	605,445
Retained Earnings at End of Year	$506,677

The notes to the financial statements are an integral part of this statement.

AURORA ACADEMY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from State Foundation	$1,022,133
Cash Received from Disadvantaged Pupil Impact Aid	317,265
Cash Received from Food Services	1,759
Cash Received from Classroom Materials and Fees	910
Cash Received from Other Operating Sources	6,892
Cash Payments to Suppliers for Goods and Services	(421,418)
Cash Payments to Employees for Services	(997,322)
Cash Payments for Employee Benefits	(277,140)
Cash Payments for Other Operating Uses	(13,953)
Net Cash Used for Operating Activities	(360,874)
Cash Flows from Noncapital Financing Activities	
Grants Received - Federal	201,565
Grants Received - State	52,889
Contributions and Donation	5,603
Net Cash Provided by Noncapital Financing Activities	260,057
Cash Flows from Capital and Related Financing Activities	
Payments for Capital Acquisitions	(30,042)
Principal Payments	(4,090)
Interest Payments	(1,469)
Net Cash Used for Capital and Related Financing Activities	(35,601)
Cash Flows from Investing Activities	
Cash Received from Interest on Investments	18,889
Net Cash Provided by Investing Activities	18,889
Net Decrease in Cash and Cash Equivalents	(117,529)
Cash and Cash Equivalents at the Beginning of the Year	457,659
Cash and Cash Equivalents at the End of the Year	$340,130

(Continued)

AURORA ACADEMY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)

Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
Operating Loss	($363,294)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities	
Depreciation	27,929
Changes in Assets and Liabilities:	
(Increase) in Prepaid Items	(3,634)
(Increase) in Intergovernmental Receivable	(14,940)
Increase in Accounts Payable	1,363
(Decrease) in Contracts Payable	(9,344)
Increase in Accrued Wages Payable	3,119
(Decrease) in Intergovernmental Payable	(2,073)
Total Adjustments	2,420
Net Cash Used for Operating Activities	($360,874)

The notes to the financial statements are an integral part of this statement.

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Aurora Academy (Aurora) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. Aurora 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 might have occurred that might adversely affect Aurora's tax-exempt status. Aurora's objective is to provide and coordinate educational, social, recreational, mental, physical, and emotional services to at-risk and typical children in a multi-age learning community that serves the child and the child's family group. Aurora, 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. Aurora may acquire facilities as needed and contract for any services necessary for the operation of the school.

Aurora was approved for operation under a contract with the Lucas County Educational Service Center (the Sponsor) for a period of five years commencing August 17, 1998. The Sponsor is responsible for evaluating the performance of Aurora and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The sponsorship agreement states the Treasurer of Lucas County Educational Service Center shall serve as the Chief Financial Officer of Aurora. (See note 12.)

Aurora operates under the direction of a ten-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 Aurora's one instructional/support facility staffed by 20 non-certified and 24 certificated full-time teaching personnel who provide services to 172 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Aurora have been prepared in conformity with generally accepted accounting principles 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. Aurora also applies Financial Accounting Standards Board statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of Aurora's accounting policies are described below:

A. Basis of Presentation

Enterprise Accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Measurement Focus and Basis of Accounting (continued)

The accounting and financial reporting treatment is determined by its 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 balance sheet. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The accrual basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

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 Aurora's contract with its Sponsor. The contract between Aurora and its Sponsor does prescribe an annual budget requirement in addition to preparing a 5-year forecast which is to be updated on an annual basis.

D. Cash and Cash Equivalents

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

For purposes of the statement of cash flows and for presentation on the balance sheet, investments with original maturities of three months or less at the time they are purchased by Aurora are considered to be cash equivalents.

E. Fixed Assets and Depreciation

Fixed assets are capitalized at cost and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value as of the dates received. Aurora 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 capitalized.

Depreciation of furniture and equipment and leasehold improvements is computed using the straight-line method over an estimated useful life of five years. Improvements to fixed assets are depreciated over the remaining useful lives of the related fixed assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Intergovernmental Revenues

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

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

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

Amounts awarded under the above named programs for the 2001 school year totaled $1,595,841.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2001, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expense in the year the services are consumed.

3. DEPOSITS AND INVESTMENTS

The following information classifies deposits and investment by categories of risk as defined in GASB Statement No. 3, “Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements”.

At June 30, 2001, the carrying amount of Aurora’s deposits was $16,735 and the bank balance was $47,803. The bank balance was covered by federal depository insurance.

Aurora’s investments are categorized to give an indication of the level of risk assumed by Aurora at fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by Aurora or its agent in Aurora’s name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty’s trust department or agent in Aurora’s name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in Aurora’s name. Aurora’s investments totaling $323,395 (cost), which are maintained in a Ready Resource Savings Account (repurchase agreement) are included in Category 2.

4. RECEIVABLES

Receivables at June 30, 2001, consisted of intergovernmental (e.g., foundation, DPIA, and federal and state grants) receivables. All intergovernmental receivables are considered collectable in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

5. FIXED ASSETS

A summary of Aurora's fixed assets at June 30, 2001, follows:

Furniture and Equipment	$129,204
Leasehold Improvements	28,847
	158,051
Less: Accumulated Depreciation	(59,820)
Net Fixed Assets	$98,231

6. RISK MANAGEMENT

A. Property and Liability

Aurora 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 fiscal year 2001, Aurora contracted with Nationwide Educational Insurers for property and general liability insurance.

Professional liability is protected by Nationwide Educational Insurers with a $2,000,000 single occurrence limit and $5,000,000 aggregate and no deductible.

B. Workers' Compensation

Aurora 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.

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Aurora contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. 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 financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and Aurora is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 4.2 percent was the portion to fund pension obligations for the fiscal year 2001. For fiscal year 2000, 5.5 percent was the portion used to fund pension obligations. Aurora's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2001, 2000 and 1999, were $14,834, $14,687, and $12,139, respectively; 86.74 percent has been contributed for fiscal year 2001 and 100.00 percent has been contributed for fiscal years 2000 and 1999. The unpaid contribution for fiscal year 2001, in the amount of $6,472, is recorded as a liability.

7. DEFINED BENEFIT PENSION PLANS (continued)

B. State Teachers Retirement System

Aurora contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement benefits and disability benefits, annual cost of living adjustments, and death benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio, 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and Aurora is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations for fiscal year 2001. For fiscal year 2000, 6 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Aurora's required contribution for pension obligations to STRS for the fiscal years ended June 30, 2001, 2000 and 1999 were $65,511, $56,305, and $32,586, respectively; and 101.47 percent has been contributed for fiscal years 2001, and 100 percent for fiscal years 2000 and 1999. The overpaid contribution for fiscal year 2001, in the amount of $1,370 is recorded as a prepaid item.

8. POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of the coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2001, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For Aurora, this amount equaled $31,031.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was $3,419 million at June 30, 2000 (the latest information available). For the fiscal year ended June 30, 2000, net health care costs paid by STRS were $283,137,000 and STRS has 99,011 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit, must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

8. POSTEMPLOYMENT BENEFITS (continued)

For this fiscal year, employer contributions to fund health care benefits were 9.8 percent of covered payroll, an increase from 1.3 percent for fiscal year 1999. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2001, the minimum pay has been established at $12,400. For Aurora, the amount to fund health care benefits, including the surcharge, was $40,800 for fiscal year 2001.

9. OTHER EMPLOYEE BENEFITS

Employee Medical, Dental and Vision Benefits

Aurora has contracted with a private carrier to provide employee medical, dental, and vision insurance to its full time employees who work 40 or more hours per week.

10. STATE SCHOOL FUNDING DECISION

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.

- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of May 21, 2002, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such reconsideration.

As of the date of these financial statements, Aurora is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.

11. CONTINGENCIES

A. Grants

Aurora received financial assistance from 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 adverse effect on the overall financial position of Aurora at June 30, 2001.

B. Ohio Community School Program

A suit was filed in Franklin County Common Pleas Court, on May 14, 2001, alleging that Ohio's Community [i.e. Charter] Schools Program violates the state's Constitution and state laws. The effect of this suit, if any, on Aurora is not presently determinable.

C. School Funding

The Ohio Department of Education 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. As a result of said review, Aurora's state foundation funding will increase by $14,940, which has been recorded as an intergovernmental receivable.

12. CAPITAL LEASES

During fiscal year 1999, Aurora entered into a capital lease arrangement for a copier with Newcourt Leasing Corporation. The lease met 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. During fiscal year 2001, Aurora disposed of the copy machine and discontinued its lease arrangement. Payments made during fiscal year 2001 totaled $2,187.

During fiscal year 2001, Aurora entered into a capital lease arrangement for a copier. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. The capital lease has been recorded at the present value of the future minimum lease payments as of the inception date. Payments made during fiscal year 2001 totaled $3,372.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2001.

Fiscal Year Ending June 30,	
2002	$6,744
2003	6,744
2004	6,744
2005-2006	10,116
Total Minimum Lease Payments	30,348
Less: Amount Representing Interest	(5,405)
Present Value of Minimum Lease Payments	$24,943

13. FISCAL AGENT

The sponsorship agreement states the Treasurer of the Lucas County Educational Service Center shall serve as the Chief Financial Officer of Aurora Academy. As part of this agreement, Aurora shall compensate the Lucas County Educational Service Center two percent (2%) of the per pupil allotments paid to Aurora from the State of Ohio. Total payments totaling $25,765 were paid to the fiscal agent for the fiscal year ended June 30, 2001. Payments are current.

The Treasurer of the Sponsor shall perform all of the following functions while serving as the Chief Financial Officer of Aurora:

1. Maintain custody of all funds received by the Aurora in segregated accounts separate from the Sponsor's or any other Community School's funds;

2. Maintain all books and accounts of all funds of Aurora;

3. Maintain all financial records of all state funds of Aurora and follow State Auditor procedures for receiving and expending state funds;

4. Assist Aurora in meeting all financial reporting requirements established by the Auditor of Ohio;

5. Invest funds of Aurora in the same manner as the funds of the sponsor are invested, but the Treasurer shall not commingle the funds with any of the Sponsor or any other community school; and

6. Pay obligations incurred by Aurora within a reasonable amount of time, not more than 14 calendar days after receipt of a properly executed voucher signed by the Chief Administrative Officer of the school so long as the proposed expenditure is within the approved budget and funds are available.

14. PURCHASED SERVICE EXPENSES

For the fiscal year ended June 30, 2001, purchased service expenses were payments for services rendered, as follows:

PURCHASED SERVICES	
Property Services	$154,473
Professional & Technical Services	46,748
Fiscal Agent Services - (Note 13)	25,765
Communications	17,203
Tuition	12,953
Trade Services	5,600
Meeting Expenses	5,819
Total Purchased Services	$268,561

15. OPERATING LEASE

Aurora entered into a lease for the period July 15, 2000 through July 14, 2001 with "Good Shepherd Parish" to lease space to house Aurora Academy. Payments made during fiscal year 2001 totaled $129,933. Aurora exercised its option to renew the lease for an additional one-year term, for the period July 15, 2002 through July 14, 2003.

16. CORRECTION OF AN ERROR

As of June 30, 2000, intergovernmental revenue and operating grant revenues were overstated $257,686 and $12,054, respectively. The restatement reduces net income and retained earnings balance by $269,740 over that which was reported for the year ended June 30, 2000.

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REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Aurora Academy
Lucas County
541 Utah Street
Toledo, Ohio 43605

To the Governing Board:

We have audited the financial statements of Aurora Academy, Lucas County, (Aurora) for the fiscal year ended June 30, 2001, and have issued our report thereon dated May 21, 2002. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Aurora's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item *2001-10148-001.* We also noted an immaterial instance of noncompliance that we have reported to management of Aurora in a separate letter dated May 21, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Aurora's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Aurora's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings as items *2001-10148-002 and 2001-10148-003*.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe item *2000-10148-002* is a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of Aurora in a separate letter dated May 21, 2002.

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

Jim Petro
Auditor of State

May 21, 2002

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

Finding Number	*2001-10148-001*

Teacher Certifications

Ohio Revised Code Section 3314.03 (A)(10), qualification of teachers, requires school classroom teachers be licensed in accordance with 3319.22 to 3319.31, except that a community school may engage non-certificated persons to teach up to twelve hours per week pursuant to Ohio Revised Code Section 3319.301. A permit must be issued by the Ohio Department of Education to these “non-certificated” persons in order to teach.

Aurora employed 3 out of 23 teachers (13%), whose teacher’s certification and/or permit was not issued by the Ohio Department of Education. One of the teachers subsequently renewed the certification with the Ohio Department of Education.

We recommend all teachers employed by Aurora be certified and/or obtain appropriate permits from the Ohio Department of Education and that said certifications/permits be maintained by Aurora.

Finding Number	*2001-10148-002*

Material Weakness - Fixed Assets

The following control weaknesses over fixed assets exist:

- Aurora has not developed a fixed asset accounting system which maintains total fixed asset listing, by location, with tag identification numbers and other supplemental information.
- Aurora has not accurately developed and implemented procedures to assist in recording assets as additions when purchased, and deletions when disposed of throughout the fiscal year.
- Aurora has not implemented procedures to perform periodic inventory of assets.
- The Governing Board has not developed a fixed asset policy wherein it sets forth the capitalization criteria for Aurora.

Failure to obtain timely records or employ adequate controls over the acquisition and disposal of fixed assets could result in misappropriation of assets and misstatements of recorded assets.

To maintain adequate safeguards over fixed assets, and to reduce the risk that Aurora’s assets will be misstated, we recommend:

- The Governing Board develop and implement procedures to be performed throughout the year, for the recording and updating of fixed assets. These procedures should include tagging all assets meeting Aurora’s capitalization criteria. Further, addition and disposal forms should be completed by Aurora and approved by management when assets are acquired or disposed. This information should then be entered on a fixed asset accounting system, recording such information as the tag number, a description of the item, the cost, the acquisition date, location and any other supporting documentation.

- Aurora adopt a formal policy and implement procedures for performing periodic (annual) physical inventories. The physical inventories can be performed by submitting a list of all fixed assets recorded to each location, having individuals responsible for that location perform the inventory of all assets in that location, and having management verify the accuracy of the recorded information. The assets in each location should be compared to the listing provided, and any assets no longer used should be deleted and any assets included on the listing should be added.

Finding Number	*2001-10148-003*

Reportable Condition - Payroll Policies & Procedures

Aurora Academy did not maintain employment contracts, documenting board authorized/agreed upon salaries for 15 of 51 (29%) employees tested, in a master file and/or individual employee files.

Aurora Academy should have adequate payroll policies and procedures in place to aid in preventing misstatements of payroll as they occur or detected such misstatements through the review process.

We recommend Aurora Academy adopt and implement payroll policies and procedures, such as:

- Approval through the Governing Board to hire all employees of the school;
- Approval through the Governing Board of all pay rates;
- Approval through the Governing Board for all pay increases;
- Maintain the required certifications of all teachers in the employee master file; and
- Maintenance of an employee master file, at the school, acknowledging the appointment and changes thereto, of all school employees.

AURORA ACADEMY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2001

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***:
2000-10148-001	Weak controls over fixed assets	No	Repeated as Finding *2001-10148-002*.

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AURORA ACADEMY

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
JUNE 25, 2002