



**Auditor of State
Betty Montgomery**

**AURORA ACADEMY
LUCAS COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Aurora Academy
Lucas County
541 Utah Street
Toledo, Ohio 43605-2299

To the Governing Board:

We have audited the accompanying Balance Sheet of Aurora Academy, Lucas County, (the Academy) as of and for the year ended June 30, 2003, the related Statement of Revenues, Expenses, and Changes in Retained Earnings, and the Statement of Cash Flows for the fiscal year ended June 30, 2003. These financial statements are the responsibility of the Academy'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 the Academy as of June 30, 2003, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2004, on our consideration of the Academy'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.

The accompanying federal awards expenditures schedule is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. We subjected this information to the auditing procedures applied in the audit of the financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

May 26, 2004

**AURORA ACADEMY
LUCAS COUNTY**

**Balance Sheet
As of June 30, 2003**

Assets

Current Assets

| | |
|---|------------|
| Cash and Cash Equivalents with Fiscal Agent | \$ 269,230 |
| Intergovernmental Receivable | 23,364 |
| Prepaid Items | <u>559</u> |

Total Current Assets 293,153

Non-Current Assets

| | |
|--|----------------|
| Fixed Assets (Net of Accumulated Depreciation) | <u>107,940</u> |
|--|----------------|

Total Assets \$ 401,093

Liabilities and Fund Equity

Current Liabilities

| | |
|---------------------------|--------------|
| Accounts Payable | \$ 6,213 |
| Accrued Wages Payable | 48,366 |
| Intergovernmental Payable | 22,925 |
| Due to Students | 417 |
| Capital Leases Payable | <u>5,631</u> |

Total Current Liabilities 83,552

Long-Term Liabilities

| | |
|------------------------|--------------|
| Capital Leases Payable | <u>9,439</u> |
|------------------------|--------------|

Total Liabilities 92,991

Equity

| | |
|--------------------|----------------|
| Retained Earnings: | |
| Unreserved | <u>308,102</u> |

Total Liabilities and Fund Equity \$ 401,093

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

**AURORA ACADEMY
LUCAS COUNTY**

**Statement of Revenues, Expenses, and Changes in Retained Earnings
For the Year Ended June 30, 2003**

Operating Revenues

| | |
|---------------------------------|------------------|
| Foundation Payments | \$ 828,018 |
| Disadvantaged Public Impact Aid | 109,484 |
| Special Education | 309,380 |
| Transportation Fees | 1,423 |
| Food Services | 190 |
| Other Operating Revenues | <u>3,722</u> |
| Total Operating Revenues | <u>1,252,217</u> |

Operating Expenses

| | |
|--------------------------|------------------|
| Salaries | 817,453 |
| Fringe Benefits | 259,602 |
| Purchased Services | 431,099 |
| Materials and Supplies | 54,656 |
| Depreciation | 55,630 |
| Other Operating Expenses | <u>33,468</u> |
| Total Operating Expenses | <u>1,651,908</u> |
| Operating Loss | <u>(399,691)</u> |

Non-Operating Revenues (Expenses)

| | |
|---|--------------------------|
| Operating Grants - Federal | 231,933 |
| Operating Grants - State | 8,017 |
| Interest Income | 3,612 |
| Contributions and Donations | 11,287 |
| Interest and Fiscal Charges | <u>(2,079)</u> |
| Total Non-Operating Revenues (Expenses) | <u>252,770</u> |
| Net Loss | (146,921) |
| Retained Earnings at Beginning of Year | <u>455,023</u> |
| Retained Earnings at End of Year | <u><u>\$ 308,102</u></u> |

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

**AURORA ACADEMY
LUCAS COUNTY**

**Statement of Cash Flows
For the Year Ended June 30, 2003**

Increase (Decrease) in Cash and Cash Equivalents

| | |
|---|--------------------------|
| Cash Flows Used for Operating Activities | |
| Cash Received from State of Ohio | \$ 1,278,295 |
| Cash Received from Other Sources | 10,326 |
| Cash Payments to Suppliers for Goods and Services | (525,966) |
| Cash Payments to Employees for Services | (814,019) |
| Cash Payments for Employee Benefits | <u>(245,996)</u> |
| Net Cash Used for Operating Activities | <u>(297,360)</u> |
| Cash Flows Provided by Noncapital Financing Activities | |
| Operating Grants - Federal | 249,386 |
| Operating Grants - State | 8,607 |
| Contribution and Donations | <u>11,287</u> |
| Net Cash Provided by Noncapital Financing Activities | <u>269,280</u> |
| Cash Flows Used by Capital and Related Financing Activities | |
| Principal Payments | (5,970) |
| Interest Payments | (2,079) |
| Payments for Capital Acquisitions | <u>(24,491)</u> |
| Net Cash Used by Capital and Related Financing Activities | <u>(32,540)</u> |
| Cash Flows Provided by Investing Activities | |
| Interest on Investments | <u>3,612</u> |
| Net Cash Provided by Investing Activities | <u>3,612</u> |
| Net Decrease in Cash and Cash Equivalents | (57,008) |
| Cash and Cash Equivalents at the Beginning of the Year | <u>326,238</u> |
| Cash and Cash Equivalents at the End of the Year | <u><u>\$ 269,230</u></u> |

(Continued)

**AURORA ACADEMY
LUCAS COUNTY**

**Statement of Cash Flows (Continued)
For the Year Ended June 30, 2003**

**Reconciliation of Operating Loss to Net Cash
Used for Operating Activities**

| | |
|--|----------------------------|
| Operating Loss | \$ (399,691) |
| Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities | |
| Depreciation | 55,630 |
| Changes in Assets and Liabilities: | |
| Decrease in Accounts Receivable | 212 |
| Decrease in Intergovernmental Receivable | 28,811 |
| Decrease in Prepaid Items | 8,561 |
| (Decrease) in Accounts Payable | (2,644) |
| Increase in Accrued Wages | 6,917 |
| (Decrease) in Due to Students | (927) |
| Increase in Intergovernmental Payable | <u>5,771</u> |
| Total Adjustments | <u>102,331</u> |
| Net Cash Used for Operating Activities | <u><u>\$ (297,360)</u></u> |

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

**AURORA ACADEMY
LUCAS COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Aurora Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax-exempt status. The Academy'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. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the school.

The Academy 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. On July 21, 2003, the Academy entered into an amended and restated contract for a continuing Ohio community school with the Sponsor. The contract terminates on June 30, 2004, and, thereafter, renews annually for one-year terms from July 1 to June 30. The Sponsor is responsible for evaluating the performance of the Academy 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 the Academy (see Note 13).

The Academy 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 the Academy's one instructional/support facility staffed by 17 non-certified and 16 certificated full time teaching personnel who provide services to 169 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with accounting principles accepted in the United States of America as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial

**AURORA ACADEMY
LUCAS COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

reporting principles. The Academy also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the Academy'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.

B. Measurement Focus/Basis of Accounting

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 the Academy's contract with its Sponsor. The contract between the Academy 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.

**AURORA ACADEMY
LUCAS COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

D. Cash and Cash Equivalents

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

During fiscal year 2003, investments were limited to repurchase agreements and STAR Ohio. Repurchase agreements are reported at cost. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2003.

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 the Academy 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. The Academy 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 are computed using the straight-line method over an estimated useful life of five years.

F. Intergovernmental Revenues

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

**AURORA ACADEMY
LUCAS COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

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 Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2003, 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 in which services are consumed.

H. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

3. DEPOSITS AND INVESTMENTS

The following information classifies deposits and investments 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, 2003, the carrying amount of the Academy's deposits was \$18,474 and the bank balance was \$47,436. The bank balance was covered by federal depository insurance.

The Academy's investments are categorized to give an indication of the level of risk assumed by the Academy at fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by the Academy or its agent in the Academy's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Academy'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 the Academy's

**AURORA ACADEMY
LUCAS COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

name. The Academy's investments total \$250,756, of which \$49,867 (reported amount and fair value) is maintained in a Ready Resource Account (repurchase agreement), included in Category 2, and \$200,889 (reported amount and fair value) maintained in a State Treasurer's Investment Pool (STAR Ohio) account, which is not categorized because it not evidenced by securities that exist in physical or book entry form.

4. RECEIVABLES

Receivables at June 30, 2003, consisted of intergovernmental (*e.g.*, federal grants) receivables. Intergovernmental receivables are considered collectible in full, due to the current year guarantee of federal funds.

5. FIXED ASSETS

A summary of the Academy's fixed assets at June 30, 2003, follows:

| | |
|--------------------------------|--------------------------|
| Furniture and Equipment | \$ 217,555 |
| Leasehold Improvements | 56,567 |
| Subtotal | <u>274,122</u> |
| Less: Accumulated Depreciation | <u>(166,182)</u> |
| Net Fixed Assets | <u><u>\$ 107,940</u></u> |

6. RISK MANAGEMENT

A. Property and Liability

The Academy 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 ended June 30, 2003, the Academy contracted with the Cincinnati Insurance Company and had the following insurance coverage:

| | |
|--|-------------|
| Commercial Property (\$1,000 deductible) | \$ 940,000 |
| Commercial General Liability per Occurrence | \$1,000,000 |
| Commercial General Liability Aggregate | \$1,000,000 |
| Commercial General Liability Personal & Advertising Injury | \$1,000,000 |
| Teacher's Professional Liability per Occurrence | \$1,000,000 |
| Teacher's Professional Liability Aggregate | \$1,000,000 |

**AURORA ACADEMY
LUCAS COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

The School owns no real estate, but leases a facility located at 541 S. Utah Street, Toledo, Ohio. (See Note 15)

B. Worker's Compensation

The Academy pays the State Workers' 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

The Academy contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

For the fiscal year ended June 30, 2003 plan members were required to contribute 9 percent of their annual covered salary and the Academy was required to contribute an actuarially determined rate. The current rate for fiscal year 2003 was 14 percent of annual covered payroll; 8.17 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Academy's required contribution for pension obligations to SERS for the fiscal year ended June 30, 2003, 2002 and 2001 were \$28,663, \$16,031, and \$14,834, respectively; 99.58 percent has been contributed for the fiscal year ended June 30, 2003 and 100 percent has been paid for 2002 and 2001. The unpaid contribution for the year ended 2003, in the amount of \$121, is recorded as a liability.

B. State Teachers Retirement System

The Academy contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement system

**AURORA ACADEMY
LUCAS COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

administered by the State Teachers Retirement Board. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a stand-alone, 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, or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on member contributions and earned interest matched by STRS Ohio funds multiplied by an actuarially determined annuity factor. The DCP allows members to place all of their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The CP offers features of both the DBP and DCP. In the CP, member contributions are invested by the member and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one-time irrevocable decision to transfer their account balance from the existing DBP into the DCP or CP. This option expired on December 31, 2001.

A DBP or CP member with five or more years of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DCP who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salary and the Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS Ohio, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for

**AURORA ACADEMY
LUCAS COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for members and employer contributions.

The Academy's required contributions for pension obligations for the DBP for the fiscal years ended June 30, 2003, 2002 and 2001 was \$59,815, \$51,804, and \$65,511, respectively; 99.11 percent was paid in 2003, and 100 percent has been contributed for the years ended 2002 and 2001. The unpaid contribution for the year ended 2003, in the amount of \$535, is recorded as a liability. Contributions for the DCP and CP for the fiscal year ended June 30, 2003, were \$872 made by plan members. There were no contributions made by the Academy.

8. POST-EMPLOYMENT BENEFITS

The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), 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 obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

For STRS Ohio, all benefit recipients are required to pay a portion of health care costs in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The Governing Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund for which payments for health care benefits are paid. For the Academy, this amount equaled \$4,601 for the year ended June 30, 2003. The balance in the fund was \$3.011 billion at June 30, 2002 (the latest information available). For the fiscal year ended June 30, 2002, net health care costs paid by STRS Ohio were \$354,697,000, and STRS Ohio had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, 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.

**AURORA ACADEMY
LUCAS COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll. 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 2003, the minimum pay had been established at \$14,500. For the Academy, the amount to fund health care benefits, including surcharge, was \$23,470 for fiscal year 2003.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance for the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2002 (the latest information available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS had approximately 50,000 participants currently receiving health care benefits.

9. OTHER EMPLOYEE BENEFITS

The Academy 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 December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..." The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

11. CONTINGENCIES

A. Grants

The Academy 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

**AURORA ACADEMY
LUCAS COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2003.

B. Pending Litigation

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 Constitution and State Law. On April 21, 2003, the Court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard for oral argument on November 18th, 2003. The effect of this suit, if any, on the Academy 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, the Academy's state foundation funding was overpaid by \$8,092, which is included as an intergovernmental payable on the face of the financial statements, and will be deducted from the Academy's 2004 monthly foundation payments.

12. CAPITALIZED LEASE - LESSEE DISCLOSURE

During fiscal year 2001, the Academy entered into a capital lease for a copy machine. 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. The capital lease was recorded at the present value of the future minimum lease payments as of the inception date. Payments made during fiscal year 2003 totaled \$8,049.

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, 2003.

**AURORA ACADEMY
LUCAS COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

| Fiscal Year Ending June 30, | | |
|---|----|---------|
| 2004 | \$ | 6,744 |
| 2005 | | 6,744 |
| 2006 | | 3,372 |
| Total Minimum Lease Payments | | 16,860 |
| Less: Amount Representing Interest | | (1,790) |
| Present Value of Minimum Lease Payments | \$ | 15,070 |

13. FISCAL AGENT

The service agreement states the Treasurer of the Lucas County Educational Service Center shall serve as the Chief Fiscal Officer of the Academy. As part of this agreement, the Academy shall compensate the Lucas County Educational Service Center two percent (2%) of the per pupil allotments paid to the Academy from the State of Ohio. A total contract payment of \$17,189 was paid in full during the year.

The Treasurer shall perform all of the following functions while serving as the Chief Fiscal Officer of the Academy:

- Maintain custody of all funds received by the Academy in segregated accounts separate from the Sponsor or any other Community School's funds;
- Maintain all books and accounts of the Academy;
- Maintain all financial records of all state funds of the Academy and follow State Auditor procedures for receiving and expending state funds;
- Assist the Academy in meeting all financial reporting requirements established by the Auditor of Ohio;
- Invest funds of the Academy 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
- Pay obligations incurred by the Academy 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 Academy so long as the proposed expenditure is within the approved budget and funds are available.

**AURORA ACADEMY
LUCAS COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

14. PURCHASED SERVICE EXPENSES

For the fiscal year ended June 30, 2003, purchased service expenses were payments for services rendered by various vendors, as follows:

| PURCHASED SERVICES | |
|-------------------------------------|--------------------------|
| Professional and Technical Services | \$ 63,989 |
| Property Services | 142,607 |
| Travel Mileage/Meeting Expense | 71,429 |
| Communications | 42,647 |
| Utilities | 10,397 |
| Contracted Craft or Trade Service | 81,768 |
| LCESC Accounting Fees (See Note 13) | 17,189 |
| Tuition | 1,073 |
| Total Purchased Services | <u><u>\$ 431,099</u></u> |

15. OPERATING LEASES

The Academy renewed a lease for the period July 2002 through July 14, 2003 with “Good Shepherd Parish” for space to house Aurora Academy. Payments made totaled \$142,607 for the fiscal year. The Academy renewed the lease for an additional five-year term, for the period August 1, 2003 through July 31, 2008.

The future annual lease payments are as follows:

| <u>Year Ending June 30</u> | <u>Amount</u> |
|----------------------------|--------------------------|
| 2004 | \$ 155,500 |
| 2005 | 161,500 |
| 2006 | 167,500 |
| 2007 | 173,500 |
| 2008 | 179,500 |
| Total | <u><u>\$ 837,500</u></u> |

**AURORA ACADEMY
LUCAS COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003**

| FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title | Pass Through Entity Number | Federal CFDA Number | Receipts | Disbursements |
|--|----------------------------------|---------------------------|-------------------|-------------------|
| U.S. DEPARTMENT OF AGRICULTURE | | | | |
| <i>Passed Through Ohio Department of Education</i> | | | | |
| <u>Nutrition Cluster:</u> | | | | |
| School Breakfast Program | 05PU-2002 | 10.553 | \$ 4,141 | \$ 4,141 |
| | 05PU-2003 | | 3,001 | 3,001 |
| National School Lunch Program | LLP4-2002 | 10.555 | 15,468 | 15,468 |
| | LLP4-2003 | | 11,048 | 11,048 |
| Total U.S. Department of Agriculture - Nutrition Cluster | | | 33,658 | 33,658 |
| U.S. DEPARTMENT OF EDUCATION | | | | |
| <i>Passed Through Ohio Department of Education</i> | | | | |
| Grants to Local Educational Agencies (ESEA Title I) | C1S1-2002 | 84.010 | 13,063 | 25,274 |
| | C1S1-2003 | | 109,951 | 103,224 |
| Special Education - Grants to States (Title VI-B) | 6BSF-2002-P | 84.027 | 9,278 | 1,440 |
| | 6BSF-2003-P | | 29,651 | 29,682 |
| Safe and Drug Free Schools and Communities (Title IV) | DRS1-2001(B) | 84.186 | | 2,621 |
| | DRS1-2002 | | | 1,959 |
| | DRS1-2003 | | 846 | 846 |
| Eisenhower Professional Development State Grants (Title II) | MSS1-2001 | 84.281 | 135 | 1,349 |
| | MSS1-2002 | | | 1,131 |
| Charter Schools | CHS1-2002 | 84.282 | | 112,361 |
| Innovative Educational Program Strategies (Title VI) | C2S1-2001 | 84.298 | 1,481 | 1,776 |
| | C2S1-2002 | | (745) | 1,372 |
| | C2S2-2003 | | 1,589 | 1,589 |
| Education Technology State Grants (Title II-D) | TJS1-2003 | 84.318 | 3,240 | 2,514 |
| Class Size Reduction (Title VI-R) | CRS1-2002 | 84.340 | (997) | 11,667 |
| Improving Teacher Quality State Grants (Title II-A) | TRS1-2003 | 84.367 | 36,950 | 36,950 |
| Total U.S. Department of Education | | | 204,442 | 335,755 |
| Totals | | | \$ 238,100 | \$ 369,413 |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE

**AURORA ACADEMY
LUCAS COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2003**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the Academy's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - MATCHING REQUIREMENTS

Certain Federal programs require the Academy contribute non-Federal funds (matching funds) to support the Federally-funded programs. The Academy has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

NOTE C - RETURN OF UNUSED FUNDS

Due to expiration of the fiscal year 2002 period of availability for the Educational Program Strategies Program, CFDA #84.298, the Academy returned \$745 in unused grant funds, which is reflected on the accompanying schedule as a negative receipt.

NOTE D - DISCONTINUED PROGRAMS

The Class Size Reduction Program, CFDA #84.340, and Eisenhower Professional Grant Program, CFDA #84.281, have been discontinued with the program purposes continued under a new federal program, Improving Teacher Quality, CFDA #84.367. Discontinued program expenditures were obligations incurred and liquidated under old agreements, and are reported under old CFDA numbers. The following table summarizes program carryover transfers in accordance with program discontinuance:

| <u>CFDA NUMBER</u> | <u>TRANSFER-IN</u> | <u>TRANSFER-OUT</u> |
|--------------------|--------------------|---------------------|
| 84.367 | \$ 997 | \$ - |
| 84.340 | - | (997) ** |
| 84.281 | - | - |

** Reflected as negative receipt on the accompanying Schedule.



**Auditor of State
Betty Montgomery**

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

Aurora Academy
Lucas County
541 Utah Street
Toledo, Ohio 43605-2299

To the Governing Board:

We have audited the financial statements of Aurora Academy, Lucas County, (the Academy) as of and for the year ended June 30, 2003, and have issued our report thereon dated May 26, 2004. 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.

Compliance

As part of obtaining reasonable assurance about whether the Academy'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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that we have reported to the management of the Academy in a separate letter dated May 26, 2004.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Academy'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 reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Academy's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2003-001 and 2003-002.

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 structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 2003-002 to be 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 the Academy in a separate letter dated May 26, 2004.

This report is intended for the information and use of the audit committee, management, the Governing Board, the Sponsor, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Betty Montgomery
Auditor of State

May 26, 2004



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO MAJOR FEDERAL PROGRAMS
AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH *OMB CIRCULAR A-133***

Aurora Academy
Lucas County
541 Utah Street
Toledo, Ohio 43605-2299

To the Governing Board:

Compliance

We have audited the compliance of Aurora Academy, Lucas County, (the Academy) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The Academy's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Academy's management. Our responsibility is to express an opinion on the Academy's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Academy's compliance with those requirements.

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In our opinion, the Academy complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003. However, we noted an instance of non-compliance that does not require inclusion in this report that we have reported to management of the Academy in a separate letter dated May 26, 2004.

Internal Control over Compliance

The management of the Academy is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Academy's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133*.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over federal compliance that do not require inclusion in this report, that we have reported to management of the Academy in a separate letter dated May 26, 2004.

This report is intended for the information and use of the audit committee, management, the Governing Board, the Sponsor, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Betty Montgomery
Auditor of State

May 26, 2004

**AURORA ACADEMY
LUCAS COUNTY**

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2003

1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|---------------------|---|--|
| <i>(d)(1)(i)</i> | Type of Financial Statement Opinion | Unqualified |
| <i>(d)(1)(ii)</i> | Were there any material control weakness conditions reported at the financial statement level (GAGAS)? | Yes |
| <i>(d)(1)(ii)</i> | Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)? | Yes |
| <i>(d)(1)(iii)</i> | Was there any reported material noncompliance at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(iv)</i> | Were there any material internal control weakness conditions reported for major federal programs? | No |
| <i>(d)(1)(iv)</i> | Were there any other reportable internal control weakness conditions reported for major federal programs? | No |
| <i>(d)(1)(v)</i> | Type of Major Programs' Compliance Opinion | Unqualified |
| <i>(d)(1)(vi)</i> | Are there any reportable findings under §.510? | No |
| <i>(d)(1)(vii)</i> | Major Programs (list): | Charter Schools Grant CFDA # 84.282 Title I CFDA # 84.010 |
| <i>(d)(1)(viii)</i> | Dollar Threshold: Type A\B Programs | Type A: > \$ 300,000 Type B: all others |
| <i>(d)(1)(ix)</i> | Low Risk Auditee? | No |

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

FINDING NUMBER 2003-001

Reportable Condition – Fixed Assets

The following conditions exist over fixed asset policies and procedures:

- The Academy has not developed a fixed asset accounting system which maintains a comprehensive, accurate listing of its total fixed assets.
- The Academy has not accurately developed and implemented procedures to be performed throughout the year to assist in recording assets as additions when purchased, and deletions as disposals when sold, retired, and/or abandoned.

Failure to employ adequate controls over the acquisition, disposal, transfer, and recording of fixed assets could result in misappropriation of assets and/or material misstatement of recorded assets. To maintain adequate safeguards over fixed assets, and to reduce the risk the Academy's assets will be materially misstated, we recommend the following:

- The Governing Board develops and implements procedures to be performed throughout the year for accurate recording and updating of a comprehensive fixed asset listing. These procedures should include (1) tagging all assets meeting the Academy's capitalization criteria, and (2) performing a periodic (annual), physical inventory to be compared and reconciled to the comprehensive fixed asset listing.
- The Academy develops and implements procedures, to be performed throughout the year, for recording and updating fixed asset additions and deletions. Addition and disposal forms should be completed by the Academy and approved by management when assets are acquired or disposed. This information should then be entered on the fixed asset accounting system, recording such information as the tag number, a description of the item, cost, acquisition/placed in service date, depreciation information (current year and total), serial number (if applicable), type of asset by financial statement category (*i.e.*, equipment, leasehold improvement), the fund/account from which the asset was purchased, and any other supporting documentation (*i.e.*, copy of invoice).

FINDING NUMBER 2003-002

Material Weakness – Purchase Orders

Twenty-seven of 60 (45%) of purchase orders tested lacked signature approval of the Chief Fiscal Officer.

Review and approval of expenditures by the Chief Fiscal Officer is a key control in the disbursement process to aid in determining that expenditures are for a proper purpose, within budget, and charged to the proper fund/account.

Lack of proper review and approval could result in funds being spent on purchases that are not for intended use, disbursements that exceed budgeted amounts, payments to fictitious vendors, and expenditures not being charged to the proper fund/account.

We recommend the Chief Fiscal Officer review and sign every purchase order prior to check payment to vendors.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

**AURORA ACADEMY
LUCAS COUNTY**

SCHEDULE OF PRIOR AUDIT FINDINGS

OMB CIRCULAR A -133 §.315 (b)

JUNE 30, 2003

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i> |
|----------------|--|------------------|--|
| 2002-001 | Several teachers did not have certification to teach. | Yes | |
| 2002-002 | Material Weakness – Purchasing: Fiscal Agent was not reviewing and signing every Purchase Order prior to a check being paid to a vendor. | No | Not corrected. Reissued as finding number 2003-002. |
| 2002-003 | The Academy did not maintain employment contracts documenting Board authorized salaries for 26% of employees. | Yes | |
| 2002-004 | The Academy did not properly maintain an equipment inventory listing. | No | Partially corrected. Reported in the Management Letter. |
| 2002-005 | The Academy submitted inaccurate reports for School Breakfast/National School Lunch Program. | Yes | |



**Auditor of State
Betty Montgomery**

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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 10, 2004**