AURORA ACADEMY
LUCAS COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2004

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 financial statements of the Aurora Academy, Lucas County, (the Academy), as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express opinions on these basic 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 reasonably assure 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, 2004, and the changes in financial position and cash flows, thereof 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 April 25, 2005 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. This report is an integral part of an audit performed in accordance with *Government Auditing Standards.* You should read it in conjunction with this report in assessing the results of our audit.

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Management's Discussion and Analysis is not a required part of the financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting of the required supplementary information. However, did not audit the information and express no opinion on it.

Betty Montgomery

Betty Montgomery
Auditor of State

April 25, 2005

MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

The discussion and analysis of Aurora Academy (the Academy) financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Government issued June, 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

- In total, net assets decreased $79,639. This decrease was due to a decrease in state subsidies. Analysis of cash flows for operating activities in 2004 demonstrates cash payments for activities exceeded unrestricted cash receipts by $300,510.

- Total assets decreased by $62,974. This was primarily due to a decrease in the cash and cash equivalents by $94,528 and an increase of $16,997 for total receivables.

- Liabilities increased $16,675. Capitalized leases increased by $16,905 due to leasing of a new copier. Accrued wages and benefits decreased by $1,901, while intergovernmental payables related to accrued pension benefits increased by $4,723. Accounts payable decreased by $3,108. The decrease in payables was primarily due to a decrease in employees and a change in the payment method for the pension benefits.

Using this Financial Report

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

Statement of Net Assets

The Statement of Net Assets answers the question, "How did we do financially during 2004?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

Table 1 provides a summary of the Academy's net assets for fiscal year 2004 and fiscal year 2003:

(Table 1)
Net Assets

	2004	2003
Assets		
Current Assets	$ 240,846	$ 293,153
Capital Assets, Net	97,283	107,940
Total Assets	338,129	401,093
Liabilities		
Current Liabilities	84,552	83,552
Non-Current Liabilities	25,114	9,439
Total Liabilities	109,666	92,991
Net Assets		
Invested in Capital Assets	65,308	-
Unrestricted	163,155	308,102
Total Net Assets	$ 228,463	$ 308,102

Total assets decreased $62,964. This decrease was primarily due to a decrease in state subsidies. Equity in pooled cash and cash equivalents decreased by $94,528 from 2003. Intergovernmental and Accounts Receivables decreased by $16,997. This decrease was due to a reduction in the number of students enrolled. In fiscal year 2003, the receipts from these grants were received in fiscal year 2004. Capital Assets, net of depreciation increased by $10,657.

Table 2 shows the changes in net assets for fiscal year 2003 and fiscal year 2004, as well as a listing of revenues and expenses.

(Table 2)
Change in Net Assets

	2004	2003
Operating Revenues:		
Foundation Payments	$ 691,243	$ 828,018
Disadvantaged Pupil Impact Aid	111,674	109,484
Special Education	363,441	309,380
Transportation		1,423
Food Services	618	190
Other	6,649	3,722

(Continued)

(Table 2) (Continued)
Change in Net Assets

	2004	2003
Non-Operating Revenues:		
Federal Grants	26,795	8,017
State Grants	229,194	231,933
Interest	9,616	3,612
Donations	2,024	11,287
Gain on Sale of Capital Assets	400	-
Interest and Fiscal Charges	(3,615)	(2,079)
Total Revenues	1,438,039	1,504,987
Operating Expenses		
Salaries	732,909	817,453
Fringe Benefits	233,222	259,602
Purchased Services	383,149	431,099
Materials and Supplies	71,438	54,656
Depreciation	59,442	55,630
Other Expenses	37,518	33,468
Total Expenses	1,517,678	1,651,908
Decrease in Net Assets	$ (79,639)	$ (146,921)

There was a decrease in revenues of $66,948 and a decrease in expenses of $134,230 from 2003. Of the decrease in revenues, the foundation payments decreased by $136,775 due to the decrease in student enrollment. Community Schools receive no support from tax revenues.

The expense for salaries decreased by $84,544 and the expense for fringe benefits decreased by $26,380 from 2003. This was primarily due to a decrease in staff during fiscal year 2004. Material and supplies expense increased by $16,782 from 2003, due to an increase in food and general supply costs. Depreciation expense decreased by $3,812.

Capital Assets

At the end of fiscal year 2004 the Academy had $97,283, invested in furniture and equipment, and leasehold improvements, which represented a decrease of $10,657 from 2003.

Table 3 shows fiscal year 2004 and fiscal year 2003:

(Table 3)
Capital Assets at June 30, 2004
(Net of Depreciation)

	2004		2003	
Furniture & Equipment	$	81,116	$	82,420
Leasehold Improvements		16,167		25,520
Totals	$	97,283	$	107,940

For more information on capital assets see Note 6 to the basic financial statements.

Debt

At June 30, 2004 the Academy had $31,975 in Capital Leases Payable, $6,861 of which is due within one year. Table 4 summarizes Capital Leases outstanding.

(Table 4)
Outstanding Debt, at Year End

	2004		2003	
Capital Leases	$	31,975	$	15,070
Total Outstanding Debt	$	31,975	$	15,070

Current Financial Issues

The Academy's financial relationship with the Lucas County Educational Service Center aids in the raising of the quality of financial records and strengthens internal controls. During the 2003-2004 Academy years, there were approximately 119 students enrolled in the Academy. The Academy receives its finances mostly from state aide.

Contacting the Academy's Financial Management

This financial report is designed to provide our citizen's with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional information contact Mr. Jeff Mangas Business Director at Aurora Academy, 541 Utah Street, Toledo, Ohio 43605-2299 or e-mail at _jm@nwoca.org.

AURORA ACADEMY
LUCAS COUNTY

STATEMENT OF NET ASSETS
JUNE 30, 2004

Assets		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	$	174,702
Accounts Receivable		355
Intergovernmental Receivables		40,006
Prepaid Items		25,783
Total Current Assets		240,846
Non-Current Assets:		
Capital Assets:		
Depreciable Capital Assets, Net		97,283
Total Non-Current Assets		97,283
Total Assets		338,129
Liabilities		
Current Liabilities:		
Accounts Payable		3,105
Accrued Wages and Benefits Payable		46,465
Intergovernmental Payable		27,648
Due to Students		473
Total Current Liabilities		77,691
Non-Current Liabilities:		
Due Within One Year		6,861
Due In More Than One Year		25,114
Total Liabilities		109,666
Net Assets		
Invested in Capital Assets, Net of Related Debt		65,308
Unrestricted		163,155
Total Net Assets	$	228,463

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

AURORA ACADEMY
LUCAS COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Operating Revenues		
Foundation Payments	$	691,243
Disadvantaged Pupil Impact Aid		111,674
Special Education		363,441
Food Services		618
Other Revenues		6,649
Total Operating Revenues		1,173,625
Operating Expenses		
Salaries		732,909
Fringe Benefits		233,222
Purchased Services		383,149
Materials and Supplies		71,438
Depreciation		59,442
Other		37,518
Total Operating Expenses		1,517,678
Operating Loss		(344,053)
Non-Operating Revenues and Expenses		
Federal Grants		229,194
State Grants		26,795
Contribution and Donations		9,616
Interest		2,024
Gain on Sale of Capital Assets		400
Interest and Fiscal Charges		(3,615)
Total Non-Operating Revenues and Expenses		264,414
Change in Net Assets		(79,639)
Net Assets Beginning of Year		308,102
Net Assets End of Year	$	228,463

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

AURORA ACADEMY
LUCAS COUNTY

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities:	
Cash Received from Foundation Payments	$ 691,243
Cash Received from Disadvantaged Pupil Impact Aid	111,674
Cash Received from Special Education	363,441
Cash Received from Other Operating Revenues	7,098
Cash Payments to Suppliers for Goods and Services	(495,510)
Cash Payments to Employees for Services	(740,695)
Cash Payments for Employee Benefits	(237,761)
Net Cash Used for Operating Activities	(300,510)
Cash Flows from Noncapital Financing Activities:	
Federal Operating Grants Received	223,944
State Operating Grants Received	5,493
Cash Received Contributions and Donations	9,616
Net Cash Provided by Noncapital Financing Activities	239,053
Cash Flows from Capital and Related Financing Activities:	
Cash Received from Sale of Capital Assets	400
Payments for Capital Acquisitions	(12,397)
Cash Payments for Principal Payments	(19,483)
Interest Payments and Fiscal Charges	(3,615)
Net Cash Used for Capital and Related Financing Activities	(35,095)
Cash Flows from Investing Activities:	
Cash Received from Interest on Investments	2,024
Net Cash Provided by Investing Activities	2,024
Net Increase in Cash and Cash Equivalents	(94,528)
Cash and Cash Equivalents at Beginning of Year	269,230
Cash and Cash Equivalents at End of Year	174,702

(Continued)

AURORA ACADEMY
LUCAS COUNTY

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

Reconciliation of Operating Loss to Net Cash Used for Operating Activities:		
Operating Loss	$	(344,053)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities		
Depreciation		59,442
Changes in Assets and Liabilities:		
Increase in Accounts Receivable		(355)
Increase in Prepaid Items		(25,224)
Decrease in Intergovernmental Receivable		9,910
Increase in Intergovernmental Payable		4,723
Decrease in Accounts Payable		(3,108)
Decrease in Accrued Wages Payable		(1,901)
Increase in Due to Students		56
Total Adjustments		43,543
Net Cash Used for Operating Activities	$	(300,510)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 1 - DESCRIPTION OF THE ACADEMY 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 Academy.

The Academy was approved for operation under an amended and restated contract with the Lucas County Educational Service Center (the Sponsor) for a period of one year commencing July 21, 2003. The contract terminates on June 30, 2004, and thereafter, renewed 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 12).

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 13 non-certified and 15 certificated full time teaching personnel who provide services to 119 students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

The Academy's basic financial statements consist of a statement of net assets, a statement of revenue, expenses, and changes in net assets, and a statement of cash flows. Enterprise fund reporting focuses on the determination of the change in net assets, financial position, and cash flows.

B. Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its enterprise activities.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the accrual basis of accounting.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non-exchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the 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.

Expenses are recognized at the time they are incurred.

D. 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 contract between the Academy and 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.

E. 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.

For the purposes of the statement of cash flows and the presentation on the Statement of Net Assets, investments with original maturities of three month or less at the time they are purchased by the Academy are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

During the year ended 2004, 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 the manner consistent with Rule 2a7 of the Investment 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, 2004.

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 are 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 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, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

H. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The 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.

All reported capital assets are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

Description	Estimated Lives
Furniture, Fixtures, and Equipment	5 years
Leasehold Improvements	5 years

I. Net Assets

Net assets represent the difference between assets and liabilities. Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets.

J. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the Academy, these revenues are primarily foundation payments from the state. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the Academy. Revenues and expenses not meeting this definition are reported as non-operating.

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 - CHANGES IN ACCOUNTING PRINCIPLES

For 2004, the Academy has implemented GASB Statement No. 34, "Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments", GASB No. 37 "Basic Financial Statements for State and Local Government: Omnibus", GASB No. 38, "Certain Financial Statement Note Disclosures", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2004, there was no effect on fund balance as a result of implementing GASB 37 and 38 or on beginning nets asset as previously reported as a result of implementing GASB 34.

GASB 34 creates new basic financial statements for reporting on the Academy's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting. The beginning net assets amount for the business-type activities equals fund equity of the enterprise funds from last year.

GASB Statement No. 37 clarifies certain provision of Statement No. 34, including the required content of Management's Discussion and Analysis. GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement note disclosures.

GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement note disclosures.

GASB Interpretation of No. 6 clarifies the application of standards of modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

NOTE 4 - DEPOSITS

At fiscal year end, the carrying amount of the Academy's deposits was $26,493, and the bank balance was $44,054. The bank balance was covered by Federal Depository Insurance Corporation (FDIC)

Investments*:* 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 insured or registered for which 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 name. The Academy's investments totaling $148,209, of which $105,651 (reported amount and fair value), is maintained in a Ready Resource Account (repurchase agreement), which are included in Category 3, and $42,558 (reported amount and fair value) maintained in the State Treasurer's Investment Pool (Star Ohio) account, which is not categorized because it is not evidenced by securities that exist in physical or book entry form.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2004, consisted of accounts and intergovernmental grants. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of receivables follows:

Receivables	Amounts
Accounts	$ 355
Intergovernmental:	
FY '04 SB - 2 DPIA , Safety	21,302
Title I '04 - Targeted Assistance	5,903
Title IV '04 - Safe and Drug Free	615
Title IIA '04 - Technology	4,149
Federal Reimbursement- April and May	8,037
Total Intergovernmental Receivables	$ 40,006
Total Receivables	$ 40,361

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004:

	Balance 6/30/03	Additions	Deletions	Balance 6/30/04
Business-Type Activity				
Capital Assets Being Depreciated				
Furniture and Equipment	$ 217,555	$ 46,335	$ (27,150)	$ 291,040
Leasehold Improvements	56,567	2,450	-	59,017
Total Capital Assets Being Depreciated	274,122	48,785	(27,150)	350,057
Less Accumulated Depreciation:				
Furniture and Equipment	(135,135)	(47,639)	27,150	(209,924)
Leasehold Improvements	(31,047)	(11,803)	-	(42,850)
Total Accumulated Depreciation	(166,182)	(59,442)	27,150	(252,774)
Total Capital Assets Being Depreciated, Net	$ 107,940	$ (10,657)	$ -	$ 97,283

NOTE 7 - 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. During fiscal year 2004, the Academy contracted with Cincinnati Insurance Company for general liability and property insurance and educational errors and omissions insurance.

Coverages are as follows:

Commercial Property ($1,000 deductible)	$ 940,000
Commerical 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

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

B. Workers' 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.

C. Employee, Medical, Dental, Vision, Prescription, and Life Benefits

The Academy contracted through the Lucas County Educational Service Center to provide employee medical, dental, and vision insurance to its employees. The Academy pays the full amount of the monthly premiums for all selected coverage (medical, dental and/or vision).

NOTE 8 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

For the fiscal year ended June 30, 2004, plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were $29,952 $28,663 and $14,834, respectively; 98.34 percent has been contributed for fiscal year 2004 and 100 percent for fiscal year 2003. $497 represents the unpaid contribution for fiscal year 2004. The balance outstanding is reflected as an intergovernmental payable.

B. State Teachers Retirement System of Ohio

The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2004, 2003, and 2002 were $62,462, $59,815 and $51,804, respectively; 94.86 percent has been contributed for fiscal year 2004 and 100 percent for fiscal year 2003.

NOTE 9 - POSTEMPLOYMENT 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-certified employees and their dependents through the Academy 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 on a pay-as-you-go basis.

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Ohio Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. For the Academy, this amount equaled $4,722 for fiscal year 2004.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2003, (the latest information available) the balance in the Fund was $2.8 billion. For the year ended

June 30, 2003, net health care costs paid by STRS Ohio were $352,301,000 and STRS Ohio had 108,294 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal 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.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 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 2004, the minimum pay was established at $25,400. For the Academy, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled $38,276.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2003 (the latest information available), were $204,930,737 and the target level was $307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of $303.6 million. SERS has approximately 50,000 participants currently receiving health care benefits.

NOTE 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 Academy-funding decision 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 Academy is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

NOTE 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits 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, 2004.

B. State Funding

The Ohio Department of Education reviews enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews ensure the schools are reporting accurate student enrollment data of the State, upon which state foundation funding is calculated. ODE has conducted a review of the Academy's 2004 student enrollment data and FTE calculations. For fiscal year 2004, the results of this review resulted in a decrease of $11,950. This amount will be deducted from the Academy's 2005 monthly foundation payments.

C. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging Ohio's Community (i.e., Charter) School's program violates the state Constitution and state laws. On April 21, 2003, the Court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The effect of this suit, if any, on the Academy is not presently determinable.

NOTE 12 - FISCAL AGENT

The sponsorship agreement states the Treasurer of the Lucas County Educational Service Center shall serve as the Chief Financial 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. The amount paid to Fiscal Agent for fiscal year 2004 totaled $27,247 and a liability in the amount of $2,351 was accrued for the year ended June 30, 2004.

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

- Maintain custody of all funds received by the Academy in segregated accounts separate from the Sponsor's or any other Community School's funds;
- Maintain all books and accounts of all funds 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 Director

of the Academy so long as the proposed expenditure is within the approved budget and funds are available.

NOTE 13 - PURCHASED SERVICES

For the period ended June 30, 2004 purchased service expenses were payments for services rendered, as follows:

Professional and Technical Services	$	59,097
Property Services (See Note 15)		155,500
Miscellaneous Property Services		20,482
Travel Mileage/Meeting Expense		28,488
Communications		34,181
Utilities		5,729
Contracted Craft or Trade Services		51,425
LCESC Accounting Fees (See Note 12)		27,247
Tuition		1,000
Total Purchased Services	$	383,149

NOTE 14 - CAPITALIZED LEASE - LESSEE DISCLOSURE

During 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. In 2004, the copier was replaced with a new capital lease for a different copier. The capital lease has been recorded at the present value of the future minimum lease payments as of the inception date. Payments made during the year ended 2004 totaled $21,583.

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, 2004.

Fiscal Year Ending, June 30,		
2005	$	8,100
2006		8,100
2007		8,100
2008		8,100
2009		2,700
Total		35,100
Less: amount representing interest		(3,125)
Present value of minimum lease payments	$	31,975

Long-Term Debt	Balance 07/01/03	Additions	Reductions	Balance 06/30/04	Amounts Due in One Year
Capital Lease Obligations	$ 15,070	$ 31,975	$ 15,070	$ 31,975	$ 6,861

NOTE 15. OPERATING LEASE

The Academy renewed a lease for the period August 1, 2003 through July 31, 2008 with “Good Shepherd Parish” for space to house the Academy. Payments made totaled $155,500 for the year.

The future annual lease payments are as follows:

Year Ending June 30,	
2005	$ 161,500
2006	167,500
2007	173,500
2008	179,500
2009	15,000
Total	$ 697,000

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS 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, 2004, and have issued our report thereon dated April 25, 2005, 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Academy's management dated April 25, 2004 we reported a matter involving internal control over financial reporting we did not deem a reportable condition.

Compliance and Other Matters

As part of reasonably assuring whether the Academy'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, providing an opinion 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 did not disclose instances of noncompliance or other matters we must report under *Government Auditing Standards.*

We intend this report solely for the information and use of management, the audit committee, the governing board, and sponsor. It is not intended for anyone other than these specified parties.

Betty Montgomery

Betty Montgomery
Auditor of State

April 25, 2005

AURORA ACADEMY
LUCAS COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2004

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***:
2003-001	Reportable Condition – Fixed Assets	No	Partially corrected, Finding will be reported in the Management Letter
2003-002	Material Weakness-Purchase Orders	Yes	

Auditor of State
Betty Montgomery

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Facsimile 614-466-4490

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 2, 2005