

Aurora Academy

Lucas County

Regular Audit

July 01, 2007 through June 30, 2008

Fiscal Year Audited Under GAGAS: 2008



Balestra, Harr & Scherer, CPAs, Inc.

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Mary Taylor, CPA

Auditor of State

Governing Board
Aurora Academy
541 Utah Street
Toledo, Ohio 43605

We have reviewed the *Independent Auditor's Report* of the Aurora Academy, Lucas County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2007 through June 30, 2008. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Aurora Academy is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

May 8, 2009

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Aurora Academy
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For the Fiscal Year Ended June 30, 2008

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

Independent Auditor's Report

Aurora Academy
Lucas County
541 Utah Street
Toledo, Ohio 43605

We have audited the accompanying financial statements of the business-type activities of the Aurora Academy, Lucas County, Ohio (the Academy), as of and for the year ended June 30, 2008, which collectively comprise the Academy's basic financial statements as listed in the table of contents. 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.

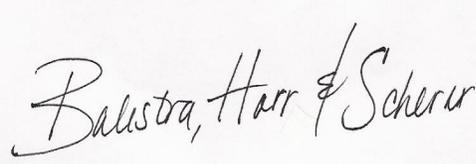
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform 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 the 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 respective financial position of the business-type activities of the Academy, as of June 30, 2008, and the respective 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 March 20, 2009, 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 the internal control over financial reporting and compliance and the results of that testing. That 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.

Management discussion and analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

As described in Note 4, the Academy implemented Governmental Accounting Standards Board (GASB) Statement No. 50, *Pension Disclosures – an amendment of GASB statement No. 25 and No. 27*, GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity transfers of Assets and Future Revenues*.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

March 20, 2009

**AURORA ACADEMY
LUCAS COUNTY, OHIO**

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

The management's discussion and analysis of Aurora Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2008. 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 the notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

Key financial highlights for 2008 are as follows:

- In total, net assets were \$337,189 at June 30 2008.
- The Academy had operating revenues of \$1,185,245 and operating expenses of \$1,524,875 for fiscal year 2008. The Academy also received \$290,222 in federal and State grants during fiscal year 2008. Total change in net assets for the fiscal year was a decrease of \$37,662.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy's financial activities. The *statement of net assets* and *statement of revenues, expenses and changes in net assets* provide information about the activities of the Academy, including all short-term and long-term financial resources and obligations.

Reporting the Academy Financial Activities

Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows

These documents look at all financial transactions and ask the question, "How did we do financially during 2008?" The statement of net assets and the statement of revenues, expenses and changes in net assets answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Academy's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the Academy as a whole, the *financial position* of the Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 7 and 8 of this report.

The statement of cash flows provides information about how the Academy finances and is meeting the cash flow needs of its operations. The statement of cash flows can be found on page 9 of this report.

**AURORA ACADEMY
LUCAS COUNTY, OHIO**

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

The table below provides a summary of the Academy's net assets for fiscal years 2008 and 2007

	Net Assets	
	<u>2008</u>	<u>2007</u>
<u>Assets</u>		
Current assets	\$ 402,144	\$ 411,750
Capital assets, net	<u>29,095</u>	<u>47,698</u>
Total assets	<u>431,239</u>	<u>459,448</u>
<u>Liabilities</u>		
Current liabilities	86,794	66,639
Non-current liabilities	<u>7,256</u>	<u>17,958</u>
Total liabilities	<u>94,050</u>	<u>84,597</u>
<u>Net Assets</u>		
Invested in capital assets, net		
of related debt	21,839	29,740
Restricted	39,750	44,565
Unrestricted	<u>275,600</u>	<u>300,546</u>
Total net assets	<u>\$ 337,189</u>	<u>\$ 374,851</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2008, the Academy's net assets totaled \$337,189. Current assets decreased and current liabilities, including accrued wages and accounts payable, increased during fiscal year 2008 as a result of increased expenditures related to the increase in enrollment.

The revenue generated by community schools are heavily dependent upon per-pupil allotment given by the State foundation program and federal entitlement programs. Foundation payments attributed to 73.25% of total operating and non-operating revenues during fiscal year 2008. The growth in funding corresponds to the growth in per pupil allotment.

**AURORA ACADEMY
LUCAS COUNTY, OHIO**

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

The table below shows the changes in net assets for fiscal years 2008 and 2007.

Change in Net Assets

	<u>2008</u>	<u>2007</u>
<u>Operating Revenues:</u>		
State foundation	\$ 1,090,038	\$ 1,033,018
Special education	91,900	43,401
Food services	3,011	1,015
Other operating revenue	296	8,891
Total operating revenue	<u>1,185,245</u>	<u>1,086,325</u>
<u>Operating Expenses:</u>		
Salaries and wages	734,385	757,372
Fringe benefits	232,655	233,179
Purchased services	441,478	402,493
Materials and supplies	71,143	87,334
Depreciation	26,752	38,634
Other	18,462	13,965
Total operating expenses	<u>1,524,875</u>	<u>1,532,977</u>
<u>Non-operating revenues:</u>		
Federal and State grants	290,222	275,037
Contributions and donations	5,448	3,334
Interest income	7,152	11,204
Interest and fiscal charges	(854)	(1,429)
Total non-operating revenues	<u>301,968</u>	<u>288,146</u>
Change in net assets	(37,662)	(158,506)
Net assets at beginning of year	<u>374,851</u>	<u>533,357</u>
Net assets at end of year	<u>\$ 337,189</u>	<u>\$ 374,851</u>

Capital Assets

At June 30, 2008, the Academy had \$26,896 invested in furniture, fixtures and equipment, net of accumulated depreciation and \$2,199 invested in leasehold improvements, net of accumulated depreciation. See Note 6 in the notes to the basic financial statements for more detail on capital assets.

Debt Administration

At June 30, 2008, the Academy had \$7,256 in capital lease obligations outstanding. Of this amount, \$5,848 is due within one year and \$1,408 is due in more than one year. See Note 10 in the notes to the basic financial statements for more detail on capital lease obligations outstanding.

**AURORA ACADEMY
LUCAS COUNTY, OHIO**

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

Current Financial Related Activities

The Academy was formed in fiscal year 1999. The Academy's fiscal agent relationship with the Lucas County Educational Service Center aids in raising the quality of financial records and strengthens internal controls. During the 2007-2008 school year, there were approximately 155 students enrolled in the Academy. The Academy relies on the State Foundation Funds as well as State and Federal Sub-Grants to provide the monies necessary to operate the Academy.

Contacting the School's Financial Management

This financial report is designed to provide our clients and creditors 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 financial information contact Mr. Jeff Mangas, Business Manager of Aurora Academy, 541 Utah Street, Toledo, Ohio 43605-2295 or email at aurora_jm@nwoca.org.

**AURORA ACADEMY
LUCAS COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2008

Assets:

Current assets:

Cash and cash equivalents	\$	348,522
Receivables:		
Accounts		810
Intergovernmental.		47,581
Prepayments		5,231
		402,144
Total current assets.		402,144

Non-current assets:

Capital assets, net.		29,095
		29,095
Total non-current assets.		29,095

Total assets		431,239
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Liabilities:

Current liabilities:

Accounts payable		5,619
Accrued wages and benefits		62,320
Intergovernmental payable.		10,530
Pension obligation payable		8,325
		86,794
Total current liabilities.		86,794

Non-current liabilities:

Due within one year.		5,848
Due in more than one year		1,408
		7,256
Total non-current liabilities		7,256

Total liabilities		94,050
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Net Assets:

Invested in capital assets, net of related debt		21,839
Restricted for:		
Locally funded programs.		1,790
Other purposes		3,769
State funded programs.		798
Federally funded programs.		33,393
Unrestricted.		275,600
		275,600
Total net assets.	\$	337,189

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AURORA ACADEMY
LUCAS COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Operating revenues:	
State foundation	\$ 1,090,038
Special education	91,900
Food services	3,011
Other operating revenue	296
Total operating revenue	<u>1,185,245</u>
Operating expenses:	
Salaries and wages	734,385
Fringe benefits	232,655
Purchased services	441,478
Materials and supplies	71,143
Depreciation	26,752
Other	18,462
Total operating expenses	<u>1,524,875</u>
Operating loss	<u>(339,630)</u>
Non-operating revenues (expenses):	
Federal and State grants	290,222
Contributions and donations	5,448
Interest income	7,152
Interest and fiscal charges	(854)
Total non-operating revenues (expenses)	<u>301,968</u>
Change in net assets	(37,662)
Net assets at beginning of year	<u>374,851</u>
Net assets at end of year	<u>\$ 337,189</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AURORA ACADEMY
LUCAS COUNTY, OHIO**

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Cash flows from operating activities:	
Cash received from State foundation	\$ 1,181,938
Cash received from other operations	3,307
Cash payments for salaries and wages	(725,097)
Cash payments for fringe benefits	(221,868)
Cash payments to suppliers for goods and services. . .	(442,520)
Cash payments for materials and supplies	(74,421)
Cash payments for other expenses	(18,807)
	<hr/>
Net cash used in operating activities	(297,468)
Cash flows from noncapital financing activities:	
Federal and State grants.	268,804
Contributions and donations.	5,448
	<hr/>
Net cash provided by noncapital financing activities .	274,252
Cash flows from capital and related financing financing activities:	
Interest and fiscal charges.	(854)
Principal retirement on capital lease.	(10,702)
Acquisition of capital assets.	(8,149)
	<hr/>
Net cash used in capital and related financing activities	(19,705)
Cash flows from investing activities:	
Interest received	7,152
	<hr/>
Net cash provided by investing activities	7,152
Net decrease in cash and cash equivalents	(35,769)
Cash and cash equivalents at beginning of period. . .	384,291
Cash and cash equivalents at end of period	\$ 348,522
	<hr/> <hr/>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (339,630)
Adjustments:	
Depreciation.	26,752
Changes in assets and liabilities:	
(Increase) in accounts receivable	(810)
(Increase) in prepayments.	(3,935)
(Decrease) in accounts payable.	(7,886)
Increase in accrued wages and benefits	15,526
Increase in intergovernmental payable.	4,513
(Decrease) in due to students.	(323)
Increase in pension obligation payable.	8,325
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Net cash used in operating activities	\$ (297,468)
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AURORA ACADEMY
LUCAS COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 1 - DESCRIPTION OF THE ACADEMY

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 Academy 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 entered into a sponsorship agreement with Buckeye Community Hope Foundation (the Sponsor) on May 11, 2006 for a period through June 30, 2009. 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 Academy also has an agreement with the Lucas County Educational Service Center to act as fiscal agent (see Note 11).

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 10 non-certified and 18 certificated full time teaching personnel who provide services to 155 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 a governmental nonprofit organization. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The 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 School has elected not to apply FASB statements and interpretations issued after November 30, 1989. 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 revenues, 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 statements of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its enterprise activities.

**AURORA ACADEMY
LUCAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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.

Revenues 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. Revenues resulting from non-exchange transactions, in which the Academy receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the 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 Academy on 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 five-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 for presentation on the statement of net assets, investments with original maturities of three months or less at the time they are purchased by the Academy are considered to be cash equivalents.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2008, 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.

**AURORA ACADEMY
LUCAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

G. 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 maintains a capitalization threshold of five hundred dollars. 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:

<u>Description</u>	<u>Estimated Lives</u>
Leasehold Improvements	5 years
Furniture, Fixtures and Equipment	5 years

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The amount restricted for other purposes includes amounts restricted for unclaimed monies and student activities.

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

I. 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 is the primary activity of the Academy. Revenues and expenses not meeting this definition are reported as non-operating.

J. Intergovernmental Revenue

The Academy currently participates in the State Foundation Program, IDEA-B grant, the Title VI-B grant, Title II-A, Title IV-D, Title V and the Title IVA. Revenues from the State Foundation Program are recognized as operating revenue in the accounting period in which all eligibility requirements had been met. Revenues received from the remaining programs are recognized as non-operating revenues in the accompanying financial statements. 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 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.

**AURORA ACADEMY
LUCAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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 - DEPOSITS AND INVESTMENTS

A. Deposits with Financial Institutions

At June 30, 2008, the carrying amount of all Academy deposits was \$14,751, exclusive of the \$284,224 repurchase agreement included in investments below. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2008, the Academy's bank balance of \$44,244 was covered by the Federal Deposit Insurance Corporation.

B. Investments

As of June 30, 2008, the Academy had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities 6 months or less</u>
Repurchase Agreement	\$ 284,224	\$ 284,224
STAR Ohio	<u>49,547</u>	<u>49,547</u>
Total	<u>\$ 333,771</u>	<u>\$ 333,771</u>

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the Academy's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: The Academy's investments in STAR Ohio were assigned an AAAM money market rating by Standard & Poors. Academy's repurchase agreements are not rated.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the Academy's \$284,224 investment in repurchase agreements, the entire balance is collateralized by underlying securities that are held by the investment's counterparty, not in the name of the Academy. Ohio law requires the market value of the securities subject to repurchase agreements must exceed the principal value of securities subject to a repurchase agreement by 2%. The Academy has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

**AURORA ACADEMY
LUCAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 3 - DEPOSITS AND INVESTMENTS - (Continued)

Concentration of Credit Risk: The Academy places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the Academy at June 30, 2008:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Repurchase Agreement	\$ 284,224	85.16
STAR Ohio	49,547	14.84
Total	<u>\$ 333,771</u>	<u>100.00</u>

C. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2008:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 14,751
Investments	<u>333,771</u>
Total	<u>\$ 348,522</u>
 <u>Cash and investments per statement of net assets</u>	
Business-type activities	<u>\$ 348,522</u>

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE

Change in Accounting Principles

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

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

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

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

**AURORA ACADEMY
LUCAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 5 - RECEIVABLES

Receivables at June 30, 2008, consisted of intergovernmental receivables arising from grants and entitlements and accounts receivable. All receivables are considered collectable in full. A summary of the principal items of receivables follows:

Receivables	<u>Amount</u>
Intergovernmental	
Title I	\$ 36,072
Title V	474
Title IV	996
Federal food service	8,632
Title IID	<u>1,407</u>
Total intergovernmental receivable	<u>47,581</u>
Accounts receivable	<u>810</u>
Total receivables	<u>\$ 48,391</u>

NOTE 6 - CAPITAL ASSETS

A summary of the Academy's capital assets at June 30, 2008, follows:

	<u>Balance 06/30/07</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/08</u>
Capital Assets:				
Furniture, fixtures and equipment	\$ 292,680	\$ 8,149	\$ -	\$ 300,829
Leasehold improvements	<u>95,841</u>	<u>-</u>	<u>-</u>	<u>95,841</u>
Total capital assets	<u>388,521</u>	<u>8,149</u>	<u>-</u>	<u>396,670</u>
Less: accumulated depreciation				
Furniture, fixtures and equipment	(251,589)	(22,344)	-	(273,933)
Leasehold improvements	<u>(89,234)</u>	<u>(4,408)</u>	<u>-</u>	<u>(93,642)</u>
Total accumulated depreciation	<u>(340,823)</u>	<u>(26,752)</u>	<u>-</u>	<u>(367,575)</u>
Total capital assets, Net of accumulated depreciation	<u>\$ 47,698</u>	<u>\$ (18,603)</u>	<u>\$ -</u>	<u>\$ 29,095</u>

**AURORA ACADEMY
LUCAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 7 - RISK MANAGEMENT

A. Insurance Coverage

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 the fiscal year ended 2008, the Academy contracted with the Cincinnati Insurance Company and had the following insurance coverage:

Commercial Property (\$1,000 deductible)	\$ 2,160,000
Commercial General Liability per Occurrence	1,000,000
Commercial General Liability Aggregate	1,000,000
Commercial General Liability Personal & Advertising Injury	1,000,000
Director's & Officer's Liability per Aggregate (\$5,000 Deductible)	1,000,000

The Academy owns no property, but leases a facility located at 541 S. Utah Street, Toledo, Ohio (See Note 12).

Settled claims have not exceeded this commercial coverage in any of the past three years and there have been no significant reductions in insurance coverage from fiscal year 2007.

B. Workers' Compensation

The Academy pays the State Worker's Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

C. 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.

NOTE 8 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The Academy 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. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Forms and Publications*.

**AURORA ACADEMY
LUCAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 8 - PENSION PLANS - (Continued)

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2008, 9.16 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 by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$18,273, \$37,341 and \$21,870, respectively; 100 percent has been contributed for fiscal years 2008, 2007 and 2006.

B. State Teachers Retirement System of Ohio

Plan Description - The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For fiscal year 2008, 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.

**AURORA ACADEMY
LUCAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 8 - PENSION PLANS - (Continued)

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007, and 2006 were \$67,029, \$71,467 and \$53,202, respectively; 96.93 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

NOTE 9 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$35,800.

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

The Academy's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$13,610, \$12,788 and \$10,779, respectively; 100 percent has been contributed for fiscal years 2008, 2007 and 2006.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2008, this actuarially required allocation was 0.66 percent of covered payroll. The Academy's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007 and 2006 were \$1,317, \$2,539 and \$1,741, respectively; 100 percent has been contributed for fiscal years 2008, 2007 and 2006.

B. State Teachers Retirement System of Ohio

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

**AURORA ACADEMY
LUCAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 9 - POSTEMPLOYMENT BENEFITS - (Continued)

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Academy's contributions for health care for the fiscal years ended June 30, 2008, 2007 and 2006 were \$5,156, \$4,904 and \$4,372, respectively; 96.93 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

NOTE 10 - 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 FASB Statement No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. In 2007, the copier was bought out and 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. Principal payments made during the fiscal year ended 2008 totaled \$10,702.

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, 2008.

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2009	\$ 6,155
2010	<u>1,440</u>
Total minimum lease payment	7,595
Less: amount representing interest	<u>(339)</u>
Total	<u><u>\$ 7,256</u></u>

NOTE 11 - FISCAL AGENT

The Academy entered into a service agreement as part of its Sponsorship contract with the Treasurer of the Lucas County Educational Service Center to 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 allotment paid to the Academy from the State of Ohio. A total contract payment of \$25,309 was paid during the fiscal year and a liability in the amount of \$2,406 was accrued as a liability for the year ended June 30, 2008.

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;

**AURORA ACADEMY
LUCAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 11 - FISCAL AGENT - (Continued)

- Maintain all financial records of the Academy and follow procedures for receiving and expending State funds, which procedures shall include that the Treasurer shall disburse money only upon receipt of a voucher signed by the Chief Administrative Officer of the Academy or that Officer's designee;
- 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.

NOTE 12 - PURCHASED SERVICES

For the fiscal year ended June 30, 2008, purchased services payments for services rendered by various vendors are as follows:

<u>PURCHASED SERVICES</u>	
Professional and technical services	\$ 148,767
Property services	232,200
Travel mileage/meeting expense	34,858
Communications	8,164
Utilities	17,269
Contracted craft or trade services	<u>220</u>
Total purchased services	<u><u>\$ 441,478</u></u>

NOTE 13 - OPERATING LEASES

- A.** The Academy entered into a lease agreement for the period August 1, 2005 through July 31, 2008 with "Good Shepherd Parish" for space to house the Academy. Payments made totaled \$179,500 for the year. On January 23, 2008, the Academy renewed the lease for the period July 1, 2008 through June 30, 2013. Payments totaled \$179,500 for the fiscal year 2008. The rent payment will be negotiated each year.
- B.** On January 1, 2008, the Academy entered into an operating lease with "Daimler Chrysler Financial Services" for the lease of a van. The lease payments are \$409.34 per month for 24 months. Payments totaled \$2,046.70 in fiscal year 2008.

**AURORA ACADEMY
LUCAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 14 - CONTINGENCIES

A. Grants

The Academy received financial assistance from State agencies in the form of grants. The expense 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. 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, 2008.

B. Litigation

A lawsuit entitled *Beverly Blount-Hill, et al. v. State of Ohio, et al.*, Case #: 3:04CV197 was filed in the U.S. District Court, Southern District of Ohio, Western Division in October 2004. The suit alleges that the funding provisions of the Ohio Community Schools Act, O.R.C. Section 3314, violate both the Ohio and Federal constitutions. If the funding scheme is determined to be unconstitutional, it could have financial ramifications for all community/charter schools. The case is currently pending, and the effect of this suit, if any, on the Academy cannot presently be determined.

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

C. State Foundation 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. The Academy has an immaterial liability in the amount of \$1,004 due in fiscal year 2009, as a result of the reviews.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Members of the Board

Aurora Academy

Lucas County, Ohio

541 Utah Street

Toledo, Ohio 43605

We have audited the financial statements of the business-type activities of Aurora Academy, Lucas County, Ohio (the Academy), as of and for the year ended June 30, 2008 and have issued our report thereon dated March 20, 2009 in which we noted that the Academy adopted Governmental Accounting Standards Board Statement No. 45, Statement No. 50 and Statement No. 48. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not to opine on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Academy's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that Academy's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies, result in more than a remote likelihood that the Academy's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

We also noted an internal control matter that we reported to management of the Academy in a separate letter dated March 20, 2009.

Aurora Academy

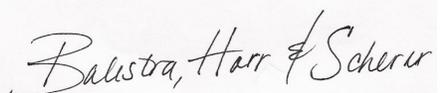
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with *Government Auditing Standards*

Page 2

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 disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We intend this report for the information and use of management and members of the Board. We intend it for no one other than these specified parties.



Balestra, Harr & Scherer, CPAs, Inc.

March 20, 2009



Mary Taylor, CPA
Auditor of State

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
MAY 21, 2009**