AURORA ACADEMY
LUCAS COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2005

Auditor of State
Betty Montgomery

AURORA ACADEMY
LUCAS COUNTY

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INDEPENDENT ACCOUNTANTS' REPORT

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

To the Governing Board:

We have audited the accompanying basic financial statements of the Aurora Academy, Lucas County, (the Academy), as of and for the year ended June 30, 2005, as listed in the table of contents. These basic 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 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Aurora Academy, Lucas County, as of June 30, 2005, 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 24, 2006, 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. 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.

One Government Center / Room 1420 / Toledo, OH 43604-2246
Telephone: (419) 245-2811 (800) 443-9276 Fax: (419) 245-2484
www.auditor.state.oh.us

Management's 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 the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Betty Montgomery

Betty Montgomery
Auditor of State

April 24, 2006

AURORA ACADEMY
LUCAS COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

The discussion and analysis of the Aurora Academy's (the Academy) financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2005. 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 $759, which represents a 0.3 percent decrease from 2004. The decrease in net assets was not significant.

- Total assets increased $147,222, which represents a 43.5 percent increase from 2004. This was primarily due to an increase in grant and foundation revenues.

- Total Liabilities increased $147,981, which represents a 134.9 percent increase from 2004. Accrued wages and benefits increased by $111,807, and intergovernmental payables related to accrued pension benefits increased by $23,269. The increases in accrued wages and benefits and accrued pension benefits were due primarily to increases in employee contracts and the employee's contract remaining accrual amount. Total non-current liabilities increased by $12,555, due to a new capital lease entered into in 2005 for a new copier. Accounts payable increased by $7,311, due to the timing of purchases.

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.

Reporting the Academy as a Whole

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the Academy's net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net assets – as reported in the Statement of Net Assets – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results. However, the

Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the Academy, to assess the overall health of the Academy.

The Statement of Net Assets and the Statement of Activities report the activities for the Academy, which encompass all the Academy's services, including instruction, support services, community services, and food services. Unrestricted state aid and state and federal grants finance most of these activities.

Table 1 provides a summary of the Academy's net assets for fiscal year 2005 and fiscal year 2004:

(Table 1)
Net Assets

	2005	2004
Assets		
Current Assets	$ 387,336	$ 240,846
Capital Assets, Net	98,015	97,283
Total Assets	485,351	338,129
Liabilities		
Current Liabilities	219,978	84,552
Non-Current Liabilities	37,669	25,114
Total Liabilities	257,647	109,666
Net Assets		
Invested in Capital Assets, Net of Related Debt	60,346	65,308
Restricted for Grants	6,052	
Unrestricted	161,306	163,155
Total Net Assets	$ 227,704	$ 228,463

Total assets increased $147,222. This was primarily due to an increase in state aid of $110,920. Total liabilities increased by $147,981. This increase was primarily due to accrued wages and benefits increasing by $111,807, and intergovernmental payables related to accrued pension benefits increasing by $23,269.

Table 2 shows the changes in net assets for fiscal year 2005 and fiscal year 2004, as well as a listing of revenues and expenses.

(Table 2)
Change in Net Assets

	2005	2004
Operating Revenues:		
Foundation Payments	$ 698,056	$ 691,243
Disadvantaged Pupil Impact Aid	148,271	111,674
Special Education	429,805	363,441
Lunchroom Sales	1,764	618
Transportation Fees	1,132	
Other Operating Revenues	4,887	6,649
Total Revenues	1,283,915	1,173,625
Operating Expenses		
Salaries	798,056	732,909
Fringe Benefits	216,725	233,222
Purchased Services	381,119	383,149
Materials and Supplies	50,250	71,438
Depreciation	53,792	59,442
Other Operating Expenses	16,944	37,518
Total Expenses	1,516,886	1,517,678
Non-Operating Revenues and (Expenses)		
Operating Grants - Federal	223,207	229,194
Operating Grants - State	1,116	26,795
Contributions and Donations	6,712	2,024
Gain on Sale of Capital Assets		400
Interest	3,115	9,616
Interest and Fiscal Charges	(1,938)	(3,615)
Total Non-Operating Revenues and (Expenses)	232,212	264,414
Increase / (Decrease) in Net Assets	$ (759)	$ (79,639)

While operating revenues increased by $110,290, total operating expenses did not change significantly. Of the increase in operating revenues, foundation payments increased by $6,813, Disadvantaged Pupil Impact Aid increased by $36,597, and Special Education increased by $66,364. Community Schools receive no support from tax revenues.

Salaries increased by $65,147, due to salary increases given to staff in fiscal year 2005. Fringe benefits decreased by $16,497, due to over payment of accrued STRS and SERS in 2004. Material and supplies decreased by $21,188 from 2004. For 2005 depreciation expense decreased by $5,650. Other expenses decreased by $20,574.

Capital Assets

At the end of fiscal year 2005 the Academy had $98,015 (net of $252,266 in accumulated depreciation) invested in furniture, equipment, and leasehold improvements. Table 3 shows fiscal year 2005 and fiscal year 2004:

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

	2005	2004
Furniture, Fixtures, and Equipment	$ 64,192	$ 81,116
Leasehold Improvement	33,823	16,167
Totals	$ 98,015	$ 97,283

For more information on capital assets see Note 5 to the basic financial statements.

Capital Lease

At June 30, 2005, the Academy had $37,669 in outstanding capital leases payable, $9,585 of which is due within one year. Table 4 summarizes capital leases outstanding.

(Table 4)
Outstanding Capital Lease, at Year End

	2005	2004
Capital Leases	37,669	31,975
Total Outstanding Debt	$ 37,669	$ 31,975

For more information on the capital leases, see Note 13 to the basic financial statements.

Current Financial Issues

Aurora Academy (the Academy) was formed in fiscal year 1999. 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 2004-2005 Academy year, there were approximately 114 students enrolled in the Academy. The Academy receives its finances mostly from state aide. Per pupil aide for fiscal year 2005 amounted to $5,169 per student.

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 Manager of Aurora Academy, 541 Utah Street, Toledo, Ohio 43605 or e-mail at jm@nwoca.org.

AURORA ACADEMY
LUCAS COUNTY

STATEMENT OF NET ASSETS
JUNE 30, 2005

Assets	
Current Assets	
Equity in Pooled Cash and Cash Equivalents	$ 352,593
Receivables:	
Intergovernmental	4,868
Prepaid Items	29,875
Total Current Assets	387,336
Non-Current Assets	
Depreciable Capital Assets, Net	98,015
Total Non-Current Assets	98,015
Total Assets	485,351
Liabilities	
Current Liabilities	
Accounts Payable	10,416
Accrued Wages and Benefits	158,272
Intergovernmental Payable	50,917
Due to Students	373
Total Current Liabilities	219,978
Non-Current Liabilities	
Due Within One Year	9,585
Due In More Than One Year	28,084
Total Non-Current Liabilities	37,669
Total Liabilities	257,647
Net Assets	
Invested in Capital Assets, Net of Related Debt	60,346
Restricted for Grants	6,052
Unrestricted	161,306
Total Net Assets	$ 227,704

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, 2005

Operating Revenues	
Foundation Payments	$ 698,056
Disadvantaged Pupil Impact Aid	148,271
Special Education	429,805
Lunchroom Sales	1,764
Transportation Fees	1,132
Other Revenues	4,887
Total Operating Revenues	1,283,915
Operating Expenses	
Salaries	798,056
Fringe Benefits	216,725
Purchased Services	381,119
Materials and Supplies	50,250
Depreciation	53,792
Other	16,944
Total Operating Expenses	1,516,886
Operating Loss	(232,971)
Non-Operating Revenues and Expenses	
Operating Grants - Federal	223,207
Operating Grants - State	1,116
Contributions and Donations	6,712
Interest	3,115
Interest and Fiscal Charges	(1,938)
Total Non-Operating Revenues and Expenses	232,212
Change in Net Assets	(759)
Net Assets Beginning of Year	228,463
Net Assets End of Year	$ 227,704

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, 2005

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities	
Cash Received from Foundation Payments	$ 715,166
Cash Received from Disadvantaged Pupil Impact Aid	148,271
Cash Received from Special Education	429,805
Cash Received from Other Operating Revenues	8,138
Cash Payments to Suppliers for Goods and Services	(446,707)
Cash Payments to Employees for Services	(682,855)
Cash Payments for Employee Benefits	(212,447)
Net Cash Used for Operating Activities	(40,629)
Cash Flows from Noncapital Financing Activities	
Federal Grants Received	237,043
State Grants Received	22,418
Cash Received from Other Non-Operating Revenues	6,712
Net Cash Provided by Noncapital Financing Activities	266,173
Cash Flows from Capital and Related Financing Activities	
Payments for Capital Acquisitions	(40,652)
Payments for Principal	(8,178)
Payments for Interest	(1,938)
Net Cash Used for Capital and Related Financing Activities	(50,768)
Cash Flows from Investing Activities	
Interest	3,115
Net Increase in Cash and Cash Equivalents	177,891
Cash and Cash Equivalents at Beginning of Year	174,702
Cash and Cash Equivalents at End of Year	$ 352,593

(Continued)

AURORA ACADEMY
LUCAS COUNTY

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
Operating Loss	$ (232,971)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities	
Depreciation	53,792
Changes in Assets and Liabilities	
Decrease in Accounts Receivable	355
Increase in Prepaid Items	(4,092)
Increase in Accounts Payable	7,311
Increase in Accrued Wages and Benefits	111,807
Decrease in Due to Students	(100)
Increase in Intergovernmental Payable	23,269
Total Adjustments	192,342
Net Cash Used for Operating Activities	$ (40,629)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 1 - DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

The Aurora Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in grades seven through twelve. 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 sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy. The Academy qualifies as an exempt organization under Section 501c (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 was approved for operation under an amended and restated contract with the Lucas County Education Service Center (the Sponsor) for a period of one year commencing July 21, 2004. The contract terminates on June 30, 2005, and thereafter, renews annually for one-year terms from July 1 to June 30. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The sponsorship agreement states the Treasurer of Lucas County Educational Service Center shall serve as the Chief Financial Officer of the Academy. (See note 11)

The Academy operates under the direction of a six-member Board of Directors. The Board of Directors 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 Board of Directors controls the Academy's one instructional/support facility staffed by 10 non-certified and 16 certificated full time teaching personnel who provide services to 135 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.

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.

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. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005, 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.

F. 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.

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

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

Furniture and Equipment	5 years
Leasehold Improvements	5 years

G. 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. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or regulations of other governments.

H. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the Academy, these revenues are primarily the State Foundation Program and the State Special Education Program. 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.

I. 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.

J. Cash

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 accounts in the Academy's name. Monies for the Academy are maintained in these accounts or temporarily used to purchase short-term investments.

For presentation on the financial statements, investments with an original maturity of three months or less at the time they are purchased by the Academy are considered to be cash equivalents.

K. 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 received from these programs are recognized as operating revenues in the accounting period in which they are earned and become measurable.

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

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

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the 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.

NOTE 3 - DEPOSITS

Custodial credit risk for deposits is the risk that in the event of bank failure, the Academy will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, $228,563 of the Academy's bank balance of $328,563 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Academy's name.

The Academy has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Academy or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

Investments

As of June 30, 2005, the Academy had the following investment:

	Fair Value	Maturity
STAR Ohio	$43,435	30.4 days
Total Investments	$43,435	

Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The investment policy restricts the Treasurer from investing in anything other than as identified in the Ohio Revised Code and that all investments must mature within five years from the date of investment unless they are matched to a specific obligation or debt of the Academy.

STAR Ohio carries a rating of AAA by Standard and Poor's. The Academy has no investment policy dealing with credit risk beyond the requirements of State statute. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

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. The Academy has no investment policy dealing with custodial credit risk beyond the requirements of State statute which prohibit payment for investments prior to the delivery of the securities representing the investments to the treasurer or qualified trustee.

The Academy places no limit on the amount it may invest in any one issuer.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2005, consisted of intergovernmental grants. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of intergovernmental receivables follows:

	Amounts
Title V 2005	361
Title IV 2005	967
Title IIA 2005	3,540
Total All Intergovernmental Receivables	$ 4,868

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005:

	Balance at 6/30/04	Additions	Deletions	Balance at 6/30/05
Business-Type Activity				
Capital Assets Being Depreciated				
Furniture, Fixtures, and Equipment	$ 236,740	$ 17,700	$ -	$ 254,440
Leasehold Improvements	59,017	36,824	-	95,841
Total Capital Assets Being Depreciated	295,757	54,524	-	350,281
Less Accumulated Depreciation:				
Furniture, Fixtures, and Equipment	155,624	(34,624)	-	190,248
Leasehold Improvements	42,850	(19,168)	-	62,018
Total Accumulated Depreciation	198,474	(53,792)	-	252,266
Business-Type Activity Capital Assets, Net	$ 97,283	$ 732	$ -	$ 98,015

NOTE 6 - RISK MANAGEMENT

A. Property and Liability

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the year ended June 30, 2005, the Academy contracted with the Cincinnati Insurance Company for the following coverages:

Commercial Property ($1,000 deductible)	$ 940,000
Commercial General Liability per Occurrence	1,000,000
Commercial General Liability Aggregate	1,000,000
Commercial General Liability Personal & Advertising Injury	1,000,000
Director's & Officer's Liability per Aggregate ($5,000 Deductible)	1,000,000

There have been no significant changes in insurance coverage from fiscal year 2004 and settled claims, if any, have not exceeded coverage in any of the past three years. The Academy owns no property, but leases a facility located at 541 Utah Street, Toledo, Ohio. (See Note 14)

NOTE 6 - RISK MANAGEMENT – (Continued)

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. 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 7 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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 or by calling (614) 222-5853.

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 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. 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 Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003, were $21,342 and $29,952 and $28,663, respectively; 100 percent has been contributed for fiscal year 2005, 2004, and 2003.

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 St., Columbus, OH 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.

NOTE 7 - DEFINED BENEFIT PENSION PLANS – (Continued)

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, 2005, 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, 2005, 2004, and 2003, were $62,344, $62,462 and $59,815, respectively; 100 percent has been contributed for fiscal years 2005, 2004, and 2003.

NOTE 8 - POSTEMPLOYMENT BENEFITS

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

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All 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 funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Academy, this amount equaled $4,737 for fiscal year 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, the balance in the Fund was $3.3 billion. For the year ended June 30, 2005, net health care costs paid by STRS were $254,780,000 and STRS had 115,395 eligible benefit recipients.

NOTE 8 - POSTEMPLOYMENT BENEFITS – (Continued)

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. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

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, 2005, employer contributions to fund health care benefits were 3.43 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 2005, the minimum pay was established at $27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2005 fiscal year, Academy paid $35,300 to fund health care benefits, including the surcharge.

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 annual health care expenses. Expenses for health care at June 30, 2005, were $178,221,113. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was $267.5 million, which is about 168 percent of next year's projected net health care costs of $158,776,151. On the basis of actuarial projections, the allocated contributions will be sufficient, in the long-term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has approximately 58,123 participants currently receiving health care benefits.

NOTE 9 - EMPLOYEE BENEFITS

Insurance Benefits

The Academy has contracted through the Lucas County Educational Service Center to provide dental and medical/surgical benefits to its full time employees. The Academy also provides vision benefits to most employees through Vision Service Plan.

NOTE 10 - 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, 2005.

NOTE 10 – CONTINGENCIES – (Continued)

B. State Funding

The Ohio Department of Education (ODE) reviews enrollment data and full time equivalency (FTE) calculations made by the Academy. These reviews ensure the Academy is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. ODE has conducted a review of the Academy's 2005 student enrollment data and FTE calculations. For fiscal year 2005, this review resulted in a decrease of $17,110. This amount will be deducted from the Academy's 2006 monthly foundation payments.

C. Litigation

A lawsuit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging Ohio's community (i.e. Charter) Academy'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 Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral argument occurred November 29, 2005. The effect of this suit, if any on the Aurora Academy is not presently determinable.

NOTE 11 - FISCAL AGENT

The Academy entered into a service agreement 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 $27,764 was paid during the year, and a liability in the amount of $2,360 was accrued for the year ended June 30, 2005.

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 Academy's funds;

- Maintain all books and accounts of the Academy;

- Maintain all financial records of all state funds of the Academy and follow State Auditor procedures for receiving and expending 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

NOTE 11 - FISCAL AGENT – (Continued)

- 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, 2005, purchased service expenses were payments for services rendered by various vendors, as follows:

Professional and Technical Services	$ 115,986
Property Services	171,654
Travel Mileage/Meeting Expense	48,462
Communications	23,770
Utilities	15,075
Contracted Craft or Trade Services	6,172
Total Purchased Services	$ 381,119

NOTE 13 - CAPITALIZED LEASE - LESSEE DISCLOSURE

In 2004, the Academy entered into a lease for a copy machine and in 2005, the Academy entered into another capital lease for an additional copy machine. The leases met the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. The capital leases have been recorded at the present value of the future minimum lease payments as of the inception date. Payments made during the fiscal year ended 2005 totaled $10,116.

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, 2005.

Long-Term Debt	Balance 07/01/04	Additions	Reductions	Balance 06/30/05	Amounts Due in One Year
Capital Lease Obligations	31,975	13,872	8,178	37,669	9,585
Total	$ 31,975	$ 13,872	$ 8,178	$ 37,669	$ 9,585

Fiscal Year Ending June 30,	
2006	$ 11,556
2007	11,555
2008	11,556
2009	6,155
2010	1,440
Total	42,262
Less: amount representing interest	(4,593)
Present value of minimum lease payments	$ 37,669

NOTE 14 - OPERATING LEASES – LESSEE DISCLOSURE

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 $161,500 for the year ended June 30, 2005.

The following is a schedule of the future minimum payments required under the operating lease as of June 30, 2005.

Year Ending June 30,	Facility Lease
2006	$ 167,500
2007	173,500
2008	179,500
2009	15,000
Total Minimum Payments	$ 535,500

NOTE 15 - RELATED PARTY TRANSACTIONS

During fiscal year 2005, the Academy paid Rosiland Grant $15,750 in compensation for working as a food service employee. Ms. Grant is also the President of the Board.

NOTE 16 – SUBSEQUENT EVENT

The Academy was notified by the Lucas County Educational Service Center (the sponsor) that the sponsor will not renew the sponsor agreement with the Academy effective June 30, 2006. As of the date of this report, the Academy is in negotiations with a new sponsor, but has not signed a formal agreement. If no sponsor agreement is signed by June 30, 2006, the Academy will cease operations.

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Auditor of State
Betty Montgomery

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 basic financial statements of the Aurora Academy, Lucas County, (the Academy) as of and for the year ended June 30, 2005, and have issued our report thereon dated April 24, 2006. 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 opinions 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 24, 2006, we reported another 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 disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the Academy's management dated April 24, 2006, we reported another matter related to noncompliance we deemed immaterial.

One Government Center / Room 1420 / Toledo, OH 43604-2246
Telephone: (419) 245-2811 (800) 443-9276 Fax: (419) 245-2484
www.auditor.state.oh.us

We intend this report solely for the information and use of the finance/audit committee, management, the Governing Board, and Sponsor. It is not intended for anyone other than these specified parties.

Betty Montgomery

Betty Montgomery
Auditor of State

April 24, 2006

Auditor of State
Betty Montgomery

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

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
MAY 25, 2006