



**Auditor of State
Betty Montgomery**

**AURORA ACADEMY
LUCAS COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Aurora Academy
Lucas County
541 Utah Street
Toledo, Ohio 43605-2295

To the Governing Board:

We have audited the accompanying Balance Sheet of Aurora Academy, Lucas County, (the Academy) as of June 30, 2002 and the related Statement of Revenues, Expenses, and Changes in Retained Earnings, and the Statement of Cash Flows for the fiscal year ended June 30, 2002, 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 general-purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Aurora Academy, Lucas County, as of June 30, 2002, and the results of its operations and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 14, 2003 on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

Betty Montgomery
Auditor of State

May 14, 2003

**AURORA ACADEMY
LUCAS COUNTY**

**BALANCE SHEET
AS OF JUNE 30, 2002**

Assets

Current Assets

Cash and Cash Equivalents with Fiscal Agent	\$326,238
Accounts Receivable	212
Intergovernmental Receivable	70,218
Prepaid Items	9,120
	<hr/>
Total Current Assets	405,788

Non-Current Assets

Fixed Assets (Net of Accumulated Depreciation)	139,079
	<hr/>
Total Assets	<u><u>\$544,867</u></u>

Liabilities and Equity

Current Liabilities

Accounts Payable	\$8,857
Accrued Wages Payable	41,449
Intergovernmental Payable	17,154
Due to Students	1,344
Capital Lease Payable - Current	5,970
	<hr/>
Total Current Liabilities	74,774

Long-Term Liabilities

Capital Lease Payable - Long Term	15,070
	<hr/>
Total Liabilities	89,844

Equity

Retained Earnings	455,023
	<hr/>
Total Liabilities and Equity	<u><u>\$544,867</u></u>

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

**AURORA ACADEMY
LUCAS COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDING JUNE 30, 2002**

Operating Revenues

Foundation Payments	\$777,602
Disadvantaged Pupil Impact Aid	450,777
Food Services	862
	<hr/>
Total Operating Revenues	1,229,241

Operating Expenses

Salaries	860,101
Fringe Benefits	239,297
Purchased Services	404,446
Materials and Supplies	142,831
Depreciation	50,732
Other Operating Expenses	21,778
	<hr/>
Total Operating Expenses	1,719,185
	<hr/>
Operating Loss	(489,944)

Non-Operating Revenues and (Expenses)

Grants - Federal	411,227
Grants - State	9,488
Interest Earnings	10,265
Interest Expense and Fiscal Charges	(2,026)
Contributions and Donations	5,277
Other	4,059
	<hr/>
Total Non-Operating Revenues and (Expenses)	438,290
	<hr/>
Net Loss	(51,654)
	<hr/>
Retained Earnings at Beginning of Year	506,677
	<hr/>
Retained Earnings at End of Year	\$455,023

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

**AURORA ACADEMY
LUCAS COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDING JUNE 30, 2002**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows Used from Operating Activities

Cash Received from State of Ohio	\$1,205,058
Cash Received from Food Services	862
Cash Payments to Suppliers for Goods and Services	(534,347)
Cash Payments to Employees for Services	(839,666)
Cash Payments to Employee Benefits	(246,992)
	<hr/>
Net Cash Used from Operating Activities	(415,085)

Cash Flows Provided from Noncapital Financing Activities

Grants - Federal	497,883
Grants - State	9,496
Contributions and Donations	5,277
Other	4,206
	<hr/>
Net Cash Provided by Noncapital Financing Activities	516,862

Cash Flows Used by Capital and Related Financing Activities

Principal Payments	(3,903)
Interest Payments and Fiscal Charges	(2,026)
Payments for Capital Acquisitions	(120,005)
	<hr/>
Net Cash Used for Capital and Related Financing Activities	(125,934)

Cash Flows Provided from Investing Activities

Interest on Investments	10,265
	<hr/>
Net Cash Provided by Investing Activities	10,265
	<hr/>
Net Decrease in Cash and Cash Equivalents	(13,892)
Cash and Cash Equivalents at the Beginning of the Year	340,130
	<hr/>
Cash and Cash Equivalents at the End of the Year	\$326,238
	<hr/> <hr/>

(Continued)

**AURORA ACADEMY
LUCAS COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDING JUNE 30, 2002
(Continued)**

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

Operating Loss (\$489,944)

**Adjustments to Reconcile Operating Loss to
Net Cash Used for Operating Activities**

Depreciation	50,732
Changes in Assets and Liabilities:	
(Increase) in Accounts Receivable	(212)
(Increase) in Intergovernmental Receivable	(30,629)
Decrease in Prepaid Items	4,936
Decrease in Fixed Assets	26,131
(Decrease) in Accounts Payable	(3,658)
Increase in Accrued Wages Payable	21,466
Increase in Due to Students	1,197
Increase in Intergovernmental Payable	4,896
	<hr/>
Total Adjustments	74,859
	<hr/>
Net Cash Used for Operating Activities	(\$415,085)
	<hr/> <hr/>

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

**AURORA ACADEMY
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Aurora Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax-exempt status. The Academy's objective is to provide and coordinate educational, social, recreational, mental, physical, and emotional services to at-risk and typical children in a multi-age learning community that serves the child and the child's family group. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the school.

The Academy was approved for operation under a contract with the Lucas County Educational Service Center (the Sponsor) for a period of five years commencing August 17, 1998. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The sponsorship agreement states the Treasurer of Lucas County Educational Service Center shall serve as the Chief Financial Officer of the Academy (see Note 13).

The Academy operates under the direction of a ten-member Governing Board. The Governing Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Governing Board controls the Academy's one instructional/support facility staffed by 18 non-certified and 16 certificated full time teaching personnel who provide services to 161 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with accounting principles generally accepted in the United States of America 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 statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the Academy's accounting policies are described below:

A. Basis of Presentation

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

**AURORA ACADEMY
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

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

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

C. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does prescribe an annual budget requirement in addition to preparing a 5 year forecast which is to be updated on an annual basis.

D. Cash and Cash Equivalents

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

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

E. Fixed Assets and Depreciation

Fixed assets are capitalized at cost and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value on the dates received. The Academy does not possess any infrastructure.

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Depreciation of furniture and equipment and leasehold improvements is computed using the straight-line method over an estimated useful life of five years.

**AURORA ACADEMY
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

F. Intergovernmental Revenues

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

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

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the 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.

The Academy also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the school was awarded \$300,000 to offset costs of the School. Revenue received from this program is recognized as non-operating revenue in the accompanying financial statements.

Amounts awarded under the above named programs for the 2002 school year totaled \$1,712,437.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2002, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expense in the year the services are consumed.

H. Estimates

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

3. DEPOSITS AND INVESTMENTS

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

At June 30, 2002, the carrying amount of the Academy's deposits was \$12,499 and the bank balance was \$47,237. The bank balance was covered by federal depository insurance.

**AURORA ACADEMY
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

The Academy's investments are categorized to give an indication of the level of risk assumed by the Academy at fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by the Academy or its agent in the Academy's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Academy's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Academy's name. The Academy's investments totaling \$313,739 (cost), which are maintained in a Ready Resource Account (repurchase agreement), are included in Category 2.

4. RECEIVABLES

Receivables at June 30, 2002, consisted of accounts receivable and intergovernmental (e.g. foundation, DPIA, federal and state grants) receivables. Accounts receivables consist of other miscellaneous types of receipts and are considered collectible in full. Intergovernmental receivables are collectible in full, due to the stable condition of State programs, and the current fiscal year guarantee of federal funds.

5. FIXED ASSETS

A summary of the Academy's fixed assets at June 30, 2002, follows:

Furniture and Equipment	\$195,999
Leasehold Improvements	53,632
	<u>249,631</u>
Less: Accumulated Depreciation	<u>(110,552)</u>
Net Fixed Assets	<u><u>\$139,079</u></u>

6. RISK MANAGEMENT

A. Property and Liability

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2002, the Academy contracted with Nationwide Insurance for property and general liability insurance.

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

B. Worker's 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.

**AURORA ACADEMY
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 9 percent of their annual covered salary and the School is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll; for the year June 30, 2002, 5.46 percent was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School's required contribution for pension obligations to SERS for the fiscal year ended June 30, 2002, 2001 and 2000 was \$16,031, \$14,834 and \$14,687 respectively; 99.28 percent has been contributed for the fiscal year ended June 30, 2002. The unpaid contribution at June 30, 2002, in the amount of \$115, is recorded as a liability.

B. State Teachers Retirement System

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

Plan members are required to contribute 9.3 percent of their annual covered salary and the School is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations for the year 2002. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School's required contribution for pension obligations to STRS for the fiscal year ended June 30, 2002, 2001, and 2000 was \$51,804, \$65,511 and \$56,305, respectively; 100 percent has been contributed for fiscal year ended June 30, 2002.

8. POSTEMPLOYMENT BENEFITS

The School 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 on a pay-as-you-go basis.

**AURORA ACADEMY
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2002, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount was \$24,539.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3,256 million at June 30, 2001 (the latest information available). For the fiscal year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

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

For the fiscal year ended June 30, 2002, employer contributions to fund health care benefits were 8.54 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 2001 (the latest information available), the minimum pay has been established at \$12,400. For the School, the amount to fund health care benefits, including the surcharge was \$26,731 for fiscal year 2002.

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 for the fiscal year ended June 30, 2001 (the latest information available) were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

9. OTHER EMPLOYEE BENEFITS

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

10. STATE SCHOOL FUNDING DECISION

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

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

**AURORA ACADEMY
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

11. CONTINGENCIES

A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the school. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2002.

B. Pending Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e. Charter) Schools program violates the State Constitution and State Law. On April 21, 2003, the Court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues.

C. School Funding

The Ohio Department of Education conducts reviews enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. As a result of said review, the Academy's state foundation funding was increased by \$23,321, for fiscal year 2002 and is included in intergovernmental receivables as of June 30, 2002.

12. CAPITALIZED LEASE – LESSEE DISCLOSURE

During fiscal year 2001, the Academy entered into a capital lease for a copy machine. The lease met the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. The capital lease was recorded at the present value of the future minimum lease payments as of the inception date. Payments made during fiscal year 2002 totaled \$7,558.

The following is a schedule of the future minimum payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2002.

<u>Fiscal Year Ending June 30,</u>	
2003	\$7,868
2004	6,744
2005	6,744
2006	<u>3,372</u>
Total Minimum Lease Payments	24,728
Less: Amount Representing Interest	<u>(3,688)</u>
Present Value of Minimum Lease Payments	<u><u>\$21,040</u></u>

**AURORA ACADEMY
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

13. FISCAL AGENT

The service agreement states the Treasurer of the Lucas County Educational Service Center shall serve as the Chief Fiscal Officer of the Academy. As part of this agreement, the School shall compensate the Lucas County Educational Service Center two percent (2%) of the per pupil allotments paid to the School from the State of Ohio. The total contract payment of \$14,605 was paid during the year in full.

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

- Maintain custody of all funds received by the School in segregated accounts separate from Lucas County ESC or any other Community School's funds.
- Maintain all books and accounts of the School.
- Maintain all financial records of all state funds of the School and follow State Auditor procedures for receiving and expending state funds.
- Assist the School in meeting all financial reporting requirements established by the Auditor of Ohio.
- Invest funds of the School in the same manner as the funds of Lucas County ESC are invested, but the Treasurer shall not commingle the funds with any of Lucas County ESC or any other community school.
- Pay obligations incurred by the School within a reasonable amount of time, not more than 14 calendar days after receipt of a properly executed voucher signed by the Chief Administrative Officer of the School so long as the proposed expenditure is within the approved budget and funds are available.

14. PURCHASED SERVICE EXPENSES

For the fiscal year ended June 30, 2002, purchased service expenses were payments for services rendered by various vendors, as follows:

PURCHASED SERVICES	
Professional and Technical Services	\$111,928
Fiscal Agent Services - (Note 13)	\$14,605
Property Services	172,110
Travel Mileage/Meeting Expense	11,557
Communications	15,781
Contracted Craft or Trade Service	60,802
Tuition	11,263
Pupil Transportation Services	2,500
Other Purchased Services	<u>3,900</u>
Total Purchase Services	<u><u>\$404,446</u></u>

**AURORA ACADEMY
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

15. OPERATING LEASE

The Academy entered into a lease for the period July 15, 2000 through July 14, 2002 with "Good Shepherd Parish" to lease space to house the Aurora Academy Community School. Payments made totaled \$137,500 for the fiscal year. The Academy renewed the lease for an additional one-year term, for the period July 15, 2002 through July 14, 2003.

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**AURORA ACADEMY
LUCAS COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2002**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disburse- ments
U.S. DEPARTMENT OF AGRICULTURE				
<i>Passed Through Ohio Department of Education:</i>				
<u>Nutrition Cluster:</u>				
Food Distribution Program		10.550	\$1,222	\$1,222
School Breakfast Program	05PU-2001	10.553	3,061	3,061
	05PU-2002		3,635	3,635
Total School Breakfast Program			<u>6,696</u>	<u>6,696</u>
National School Lunch Programs	LLP1-2001	10.555	5,659	5,659
	LLP4-2001		6,810	6,810
	LLP4-2002		18,087	18,087
Total National School Lunch Programs			<u>30,556</u>	<u>30,556</u>
Total U.S. Department of Agriculture - Nutrition Cluster			<u>38,474</u>	<u>38,474</u>
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education:</i>				
Special Education Grants to State	6BSF-2002-P	84.027	20,521	28,359
	6BSX-2001-P		(25,714)	(13,558)
Total Special Education Grants to State			<u>(5,193)</u>	<u>14,801</u>
Eisenhower Professional Development State Grants	MSS1-2000	84.281	(692)	
	MSS1-2002		3,124	1,993
Total Eisenhower Professional Development State Grants			<u>2,432</u>	<u>1,993</u>
Charter Schools	CHS1-2001-P	84.282	150,000	150,000
	CJS1-2002		150,000	37,639
Total Charter Schools			<u>300,000</u>	<u>187,639</u>
Title I Grants to Local Educational Agencies	C1S1-2001	84.010	43,653	52,142
	C1S1-2001-C		16,488	16,488
	C1S1-2002		58,337	46,127
Total Title I Grants to Local Educational Agencies			<u>118,478</u>	<u>114,757</u>
Innovative Educational Program Strategies	C2S1-2000	84.298	(14)	
	C2S1-2002		2,117	
Total Innovative Educational Program Strategies			<u>2,103</u>	
Safe and Drug Free Schools and Communities State Grants	DRS1-2000	84.186		1,627
	DRS1-2001		1,918	
	DSR1-2002		2,956	997
Total Safe and Drug Free Schools and Communities State Grants			<u>4,874</u>	<u>2,624</u>
Class Size Reduction	CRS1-2001	84.340	14,811	17,173
	CRS1-2002		23,126	10,462
Total Class Size Reduction			<u>37,937</u>	<u>27,635</u>
U. S. Total Department of Education			<u>460,631</u>	<u>349,449</u>
Total Schedule of Federal Awards Expenditures			<u>\$499,105</u>	<u>\$387,923</u>

The accompanying notes are an integral part of this schedule.

**AURORA ACADEMY
LUCAS COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2002**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - MATCHING

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

NOTE C - FOOD DISTRIBUTION

Non-monetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2002, Aurora had no significant food commodities in inventory.



**Auditor of State
Betty Montgomery**

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

Aurora Academy
Lucas County
541 Utah Street
Toledo, Ohio 43605-2295

To the Governing Board:

We have audited the financial statements of Aurora Academy, Lucas County, (the Academy) as of and for the year ended June 30, 2002, and have issued our report thereon dated May 14, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2002-001. We also noted an immaterial instance of noncompliance that we have reported to management of the Academy in a separate letter dated May 14, 2003.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Academy's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2002-002 and 2002-003.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 2002-002 to be a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Academy in a separate letter dated May 14, 2003.

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

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

Betty Montgomery
Auditor of State

May 14, 2003



**Auditor of State
Betty Montgomery**

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

Aurora Academy
Lucas County
541 Utah Street
Toledo, Ohio 43605-2295

To the Governing Board:

Compliance

We have audited the compliance of Aurora Academy, Lucas County, (the Academy) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. The Academy's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Academy's management. Our responsibility is to express an opinion on the Academy's compliance based on our audit.

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

In our opinion, the Academy complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

Internal Control over Compliance

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Academy's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings as items 2002-004 and 2002-005.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Academy in a separate letter dated May 14, 2003.

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



Betty Montgomery
Auditor of State

May 14, 2003

**AURORA ACADEMY
LUCAS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2002**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	Yes
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Nutrition Cluster CFDA #10.555 CFDA #10.553 Charter Schools CFDA #84.282
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2002-001

Noncompliance Citation

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

**FINDING NUMBER 2002-001
(Continued)**

The Academy did not have teacher certifications and/or permits issued by the Ohio Department of education for 33% of the teachers employed.

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

FINDING NUMBER 2002-002

Material Weakness - Purchase Orders

Forty-three percent of purchase orders did not have the Fiscal Agent's signature approving the purchase.

Review and approval of expenditures by the Fiscal Agent is a key control in the disbursement process to determine that expenditures are for a proper purpose, within budget, and charged against proper fund code.

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

We recommend the Fiscal Agent review and sign every purchase order before a check is paid to a vendor.

FINDING NUMBER 2002-003

Reportable Condition - Payroll Policies and Procedures

Aurora Academy did not maintain employment contracts, documenting board authorized/agreed upon salaries for twenty six percent of the employees.

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

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

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

3. FINDINGS FOR FEDERAL AWARDS

1. Equipment and Real Property Management

Finding Number	2002-004
CFDA Title and Number	Charter Schools CFDA #84.282
Federal Award Number / Year	2002
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Reportable Condition

The School prepared an equipment inventory listing which includes a brief description of each item, the location and tag number. There is no indication of serial numbers or other identification numbers, make/model, acquisition date and cost, percentage of Federal participation in the cost, condition, and disposition data. Lack of detailed records of equipment purchased with federal funds could result in the School receiving money for sale of equipment to which they are not entitled to retain. We recommend the School include serial numbers or other identification numbers, acquisition date and cost, percentage of Federal participation in the cost, condition, and disposition data on the equipment inventory listing.

2. Reporting

Finding Number	2002-005
CFDA Title and Number	National School Lunch Program CFDA 10.555 and School Breakfast Program CFDA # 10.553
Federal Award Number / Year	2002
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Reportable Condition

Aurora Academy uses the Ohio Department Education’s electronic filing option to report School Breakfast and National School Lunch Programs data. The data includes receipts collected for sales of meals. The Academy input the amounts which should have been collected rather than the actual collections. As a result, the reports were inaccurate. We recommend due care be exercised when entering information into the system to ensure accurate data is reported to the Ohio Department of Education.

**AURORA ACADEMY
LUCAS COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2001-10148-001	Several teachers did not have certification to teach.	No	Not Corrected. Reissued as finding number 2002-001.
2001-10148-002	Fixed Asset listing had not been maintained.	Yes	
2001-10148-003	Employment contracts were not maintained for several employees.	No	Not Corrected. Reissued as finding number 2002-003.

**AURORA ACADEMY
LUCAS COUNTY**

CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 §.315 (c)
JUNE 30, 2002

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2002-004	An inventory listing will be created.	6/30/03	Jeff Mangus Business Manager
2002-005	The actual receipts collected will be input on the electronic reports.	6/30/03	Jeff Mangus Business Manager



**Auditor of State
Betty Montgomery**

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AURORA ACADEMY

LUCAS COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 26, 2003**