Aurora Academy

Lucas County, Ohio

Regular Audit

July 1, 2006 through June 30, 2007

Fiscal Year Audited Under GAGAS: 2007

BALESTRA, HARR & SCHERER, CPAs, Inc.
528 South West Street, P.O. Box 687
Piketon, Ohio 45661

Telephone (740) 289-4131
Fax (740) 289-3639
www.bhscpas.com

Mary Taylor, CPA
Auditor of State

Members of the Board
Aurora Academy
541 Utah Street
Toledo, Ohio 43605

We have reviewed the *Independent Auditor's Report* of Aurora Academy, Lucas County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2006 through June 30, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 25, 2008

88 E. Broad St. / Fifth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us

This Page is Intentionally Left Blank.

Aurora Academy
Table of Contents
For the Fiscal Year Ended June 30, 2007

BALESTRA, HARR & SCHERER, CPAs, INC.
528 South West Street, P.O. Box 687
Piketon, Ohio 45661

Telephone (740) 289-4131
Fax (740) 289-3639
www.bhscpas.com

Member American Institute of Certified Public Accountants Ohio Society of Certified Public Accountants

Independent Auditor's Report

Members of the Board
Aurora Academy
541 Utah Street
Toledo, Ohio 43605

We have audited the accompanying financial statements of the business-type activities of the Aurora Academy, Lucas County, Ohio, (the Academy) as of and for the year ended June 30, 2007, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 business-type activities of the Academy, as of June 30, 2007, 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 March 15, 2008 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. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 2 through 4 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Balestra, Harr & Scherer

Balestra, Harr & Scherer, CPAs, Inc.

March 15, 2008

The discussion and analysis of the Aurora Academy's (the Academy) financial performance provides an overall view of the Academy's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

- Total Assets were $459,448.
- Total Liabilities were $84,597.
- Change in Net Assets was $(158,506).

Using this Annual Financial Report

This report consists of three parts, the Management's Discussion and Analysis (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 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 2007 compared to fiscal year 2006:

Table 1
Net Assets

	2007	2006*
Assets		
Current Assets	$ 411,750	$ 551,076
Capital Assets, Net	47,698	82,774
Total Assets	459,448	633,850

Liabilities		
Current Liabilities	66,639	72,409
Noncurrent Liabilities	17,958	28,084
Total Liabilities	84,597	100,493
Net Assets		
Invested in Capital Assets	29,740	26,606
Restricted for Grants	44,565	21,287
Unrestricted	300,546	485,464
Total Net Assets	$ 374,851	$ 533,357

*Certain reclassifications were made for consistency.

Total assets decreased by $174,402, which represents a 27.51 percent decrease from fiscal year 2006. While cash and cash equivalents decreased by $99,866, total receivables decreased by $15,565, and total prepaid expenses decrease by $23,895. Total liabilities decreased by $15,896, which represents a 15.82 decrease from 2006. The decrease was due mainly to principal payments for capital leases. The Academy's net assets decreased by $158,506, represents a 29.72 percent decrease from 2006.

Table 2 shows the changes in net assets for fiscal year 2007 as compared to fiscal year 2006.

Table 2
Change in Net Assets

	2007	2006
Revenues		
Operating Revenues:		
Foundation Basic Aid	$ 1,033,018	$ 794,810
Poverty-Based Aid	-	98,258
Special Education	43,401	391,381
Food Services	1,015	1,502
Other Operating Revenues	8,891	9,419
Non-Operating Revenues:		
Federal and State Grants	275,037	244,086
Contributions and Donations	3,334	5,480
Interest Income	11,204	9,622
Total Revenues	1,375,900	1,554,558
Expenses		
Operating Expenses		
Salaries	757,372	543,035
Fringe Benefits	233,179	158,499
Purchased Services	402,493	402,988
Materials and Supplies	87,334	75,995
Depreciation	38,634	50,962
Other Expenses	13,965	15,197
Non-Operating Expense:		
Loss on Disposal of Capital Asset	-	258
Interest and Fiscal Charges	1,429	1,971
Total Expenses	1,534,406	1,248,905
Change in Net Assets	$ (158,506)	$ 305,653

There was an decrease in revenues of $178,658 and a increase in expenses of $285,501 from fiscal year 2006. Of the decrease in revenues, the special education payments decreased by $347,980. Community Schools receive no support from tax revenues.

The expense for salaries increased by $214,337 and the expense for fringe benefits increased by $74,680 from fiscal year 2006. This was primarily due to staff increases throughout the 2007 school year because of an increase in student enrollment. Materials and supplies expense increased by $11,339, due to more materials and supplies being purchased during the fiscal year.   The depreciation expense decreased by $12,328.

Capital Assets

At the end of fiscal year 2007 the Academy had $388,521 (net of $340,823 in accumulated depreciation) invested in furniture, fixture and equipment and leasehold improvements. Table 3 shows fiscal year 2007 balances compared to fiscal year 2006:

Table 3
Capital Assets
(Net of Depreciation)

	2007	2006
Furniture, Fixtures, and Equipment	$ 41,091	$ 62,559
Leasehold Improvements	6,607	20,215
Totals	$ 47,698	$ 82,774

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

Capital Lease

At June 30, 2007 the Academy had $17,958 in capital leases payable, which is reported as a liability. Table 4 shows fiscal year 2007 balances compared to fiscal year 2006:

Table 4
Outstanding Debt

	2007	2006
Capital Leases Payable	$17,958	$28,084

For more information on the capital leases, see Note 9 to the basic financial statements.

Current Financial Issues

The Aurora 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 2006-2007 school year, there were approximately 153 students enrolled in the Academy. The Academy receives its finances mostly from state aid. Per pupil aid for fiscal year 2007 amounted to $5,335 per student.

Contacting the Academy's Financial Management

This financial report is designed to provide our citizens 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 43605-2295 or e-mail at aurora_jm@nwoca.org.

AURORA ACADEMY
LUCAS COUNTY

Statement of Net Assets
As of June 30, 2007

Assets:	
Current Assets:	
Cash and Cash Equivalents	$ 384,291
Intergovernmental Receviables	26,163
Prepaid Items	1,296
Total Current Assets	411,750
Non-Current Assets:	
Depreciable Capital Assets, Net	47,698
Total Non-Current Assets	47,698
Total Assets	459,448
Liabilities:	
Current Liabilities:	
Accounts Payable	13,505
Accrued Wages and Benefits Payable	46,794
Intergovernmental Payable	6,017
Due to Students	323
Total Current Liabilities	66,639
Noncurrent Liabilities:	
Due Within One Year	10,702
Due In More Than One Year	7,256
Total Noncurrent Liabilities	17,958
Total Liabilities	84,597
Net Assets:	
Invested in Capital Assets, Net of Related Debt	29,740
Restricted for Grants	44,565
Unrestricted	300,546
Total Net Assets	$ 374,851

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, 2007

Operating Revenues:	
Foundation Basic Aid	$ 1,033,018
Special Education	43,401
Food Services	1,015
Other Operating Revenues	8,891
Total Operating Revenues	1,086,325
Operating Expenses:	
Salaries	757,372
Fringe Benefits	233,179
Purchased Services	402,493
Materials and Supplies	87,334
Depreciation	38,634
Other Operating Expenses	13,965
Total Operating Expenses	1,532,977
Operating Income/(Loss)	(446,652)
Non-Operating Revenues (Expenses):	
Operating Grants - Federal	234,172
Operating Grants - State	40,865
Contributions and Donations	3,334
Interest Income	11,204
Interest and Fiscal Charges	(1,429)
Total Non-Operating Revenues (Expenses)	288,146
Change in Net Assets	(158,506)
Net Assets at Beginning of Year	533,357
Net Assets at End of Year	$ 374,851

See Accompanying Notes to the Basic Financial Statements

AURORA ACADEMY
LUCAS COUNTY

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2007

Increase (Decrease) in Cash and Cash Equivalents		
Cash Flows from Operating Activities:		
Cash Received from State of Ohio	$	1,076,419
Cash Received from Other Operating Sources		9,906
Cash Payments to Suppliers for Goods and Services		(480,265)
Cash Payments to Employees for Services		(757,586)
Cash Payments for Employee Benefits		(236,818)
Net Cash Used for Operating Activities		(388,344)
Cash Flows from Noncapital Financing Activities:		
Cash Recevied from Operating Grants - Federal		249,737
Cash Recevied from Operating Grants - State		40,865
Cash Received Contributions and Donations		3,334
Net Cash Provided by Noncapital Financing Activities		293,936
Cash Flows from Capital and Related Financing Activities:		
Cash Payments for Capital Acquisitions		(5,107)
Cash Payments for Principal Payments		(10,126)
Cash Payments for Interest Payments		(1,429)
Net Cash Used for Capital and Related Financing Activities		(16,662)
Cash Flows from Investing Activities:		
Cash Received from Interest on Investments		11,204
Net Cash Provided by Investing Activities		11,204
Net Decrease in Cash and Cash Equivalents		(99,866)
Cash and Cash Equivalents at Beginning of Year		484,157
Cash and Cash Equivalents at End of Year	$	384,291

(Continued)

AURORA ACADEMY
LUCAS COUNTY

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2007
(Continued)

Reconciliation of Operating Income/(Loss) to Net Cash Used for Operating Activities:		
Operating Income/(Loss)	$	(446,652)
Adjustments to Reconcile Operating Income/(Loss) to Net Cash Used for Operating Activities:		
Depreciation		38,634
Changes in Assets and Liabilities:		
Decrease in Prepaid Items		23,895
Increase in Accounts Payable		(368)
Decrease in Accrued Wages Payable		(214)
Decrease in Intergovernmental Payable		(3,639)
Total Adjustments		58,308
Net Cash Used for Operating Activities	$	(388,344)

See Accompanying Notes to the Basic Financial Statements

1. DESCRIPTION OF THE ACADEMY DISTRICT 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 Academy district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the Academy.

The Academy entered into a sponsorship agreement with Buckeye Community Hope Foundation (the Sponsor) on May 11, 2006 for a period through June 30, 2009. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The Academy also has an agreement with the Lucas County Educational Service Center to act as fiscal agent (see Note 10).

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 9 non-certified and 20 certificated full time teaching personnel who provide services to 153 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

B. Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statements of net assets. The statement of revenues, expenses, and 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting

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

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

Revenues resulting from non-exchange transactions, in which the Academy receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to 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 five-year forecast, which is to be updated on an annual basis.

E. Cash and Cash Equivalents

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

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

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2007, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of five hundred dollars. The Academy does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

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

H. Net Assets

Net assets represent the difference between assets and liabilities. Invested in Capital Assets 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. The Academy applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

I. Operating Revenues and Expenses

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

J. Intergovernmental Revenue

The Academy currently participates in the State Foundation Basic Aid program and the State Special Education Program. Revenues from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements are met. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements are 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 expenditures requirements, in which the resources are provided to the Academy on a reimbursement basis. Amounts awarded under the above named programs for fiscal year 2007 totaled $1,076,419.

K. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

3. DEPOSITS AND INVESTMENTS

Deposits

At fiscal year end June 30, 2007, the carrying amount of the Academy's deposits was $5,908 and the bank balance was $48,272. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosures," as of June 30, 2007, none of the bank balance was exposed to custodial risk as discussed below as the entire bank baalance was covered by the Federal Depository Insurance Corporation.

Custodial credit risk is the risk that in the event of bank failure, the Academy will not be able to recover its deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at the Federal Reserve Banks or at member banks of the federal reserve system, in the name of the respective depository and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Academy.

The Academy has no deposit policy for custodial credit 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 one hundred five percent of the deposits being secure.

Investments

As of June 30, 2007, the Academy's investments total $378,383 of which $47,633 is maintained in a STAR Ohio account. At June 30, 2007, STAR Ohio received the Standard & Poor's highest credit rating of AAAm. $330,750 was maintained in a Government Sweep Account at Sky Bank.

4. RECEIVABLES

Receivables at June 30, 2007, consisted of intergovernmental receivables arising from grants and entitlements. All receivables are considered collectable in full. A summary of the principal items of receivables follows:

Receivables	Amount
Intergovernmental	
Title I	$ 3,610
Title V	234
Title IV	1,878
Title IIA	20,352
Title IID	89
Total Intergovernmental Receivables	$ 26,163

5. CAPITAL ASSETS

A summary of the Academy's capital assets at June 30, 2007, follows:

	Balance 06/30/06	Additions	Deductions	Balance 06/30/07
Capital Assets:				
Furniture, Fixtures, and Equipment	$ 289,122	$ 3,558	$ -	$ 292,680
Leasehold Improvements	95,841	-	-	95,841
Total Capital Assets	384,963	3,558	-	388,521
Less: Accumulated Depreciation				
Furniture, Fixtures, and Equipment	(226,563)	(25,026)	-	(251,589)
Leasehold Improvements	(75,626)	(13,608)	-	(89,234)
Total Accumulated Depreciation	(302,189)	(38,634)	-	(340,823)
Total Capital Assets, Net of Accumulated Depreciation	$ 82,774	$ (35,076)	$ -	$ 47,698

6. RISK MANAGEMENT

A. Insurance Coverage

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the fiscal year ended 2007, the Academy contracted with the Cincinnati Insurance Company and had the following insurance coverage:

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

Settled claims have not exceeded this commercial coverage in any of the past three years. The Academy has not incurred any significant reductions in coverage from the prior year. The Academy owns no property, but leases a facility located at 541 S. Utah Street, Toledo, Ohio. (See Note 12)

B. Workers' Compensation

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

C. Other Employee Benefits

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

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Academy contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided 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 43215-3476.

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salary and the Academy was required to contribute an actuarially determined rate. The employer rate for fiscal year 2007 was 14 percent of annual covered payroll; 10.68 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The Academy's required contributions for pension obligations to SERS for the fiscal years ending June 30, 2007, 2006 and 2005 were $39,880, $23,611, and $21,342, respectively; 100 percent has been contributed for fiscal years 2007, 2006 and 2005, respectively.

B. State Teachers Retirement System

The Academy contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost sharing multiple employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

Plan Options – New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, the member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

7. DEFINED BENEFIT PENSION PLANS (Continued)

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. 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.

Combined Plan Benefits – The member allocates Member contributions, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

Benefits are increased annually by 3% of the original base amount for Defined Benefit Plan participants.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio Law health care benefits are not guaranteed.

7. DEFINED BENEFIT PENSION PLANS (Continued)

A Defined Benefit 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. A death benefit of $1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to $2,000 can be purchased by participants in the DB, DC, or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

For the fiscal year ended June 30, 2007, 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. The Academy's required contributions for pension obligations for the fiscal years ended June 30, 2007, 2006 and 2005 were $71,467, $53,202 and $62,344, respectively; 100 percent has been contributed for fiscal years 2006 and 2005 and 95.52 percent has been contributed for June 30, 2007.

STRS Ohio issues a stand-alone financial report. Copies of the STRS Ohio 2007 Comprehensive Annual Financial Report will be available after January 1, 2008. Additional information or copies of STRS Ohio's 2007 Comprehensive Annual Financial Report can be requested by writing to STRS Ohio, 275 E. Board St., Columbus, Ohio 43215-3771, by calling (614) 227-4090, or by visiting the STRS OhioWeb site at www.strsoh.org.

8. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2005, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2007, the healthcare allocation is 3.32 percent. 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 2007, the minimum pay was established at $35,800. 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.

8. POSTEMPLOYMENT BENEFITS (Continued)

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Net health care costs for the fiscal year ending June 30, 2007, were $127,615,614. The target level for the health care fund is 150% of the projected claims less premium contributions for the next fiscal year. As of June 30, 2007, the value of the health care fund was $386.4 million, which is about 221% of next year's projected net health care costs. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual net claim costs. The number of recipients currently receiving health care benefits is approximately 55,818.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For fiscal year June 30, 2007, the Board allocated employer contributions equal to 3.32 percent of covered payroll and adding the surcharge due to the Health Care Reserve Fund. For the Academy, the amount to fund health care benefits, including surcharge, equaled $12,788 for the fiscal year ended June 30, 2007.

B. State Teachers Retirement System

STRS Ohio provides access to health care coverage to retirees who participated in the Defined Benefit or Combined Plan and their dependents. Coverage under the current plan includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code (R.C.) the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium.

The R.C. grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio Law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For fiscal year June 30, 2007, and June 30, 2006, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. The balance in the Health Care Stabilization Fund was $4.1 billion as of June 30, 2007. For the Academy, this amount equaled $4,904 for the fiscal year ended June 30, 2007.

For the fiscal year ended June 30, 2007, net health care costs paid by STRS Ohio were $265,558,000. There were 122,934 eligible benefit recipients.

9. CAPITALIZED LEASE – LESSEE DISCLOSURE

During 2003 and 2004, the Academy entered into two capital leases for copy machines. The leases met the criteria of capital leases 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 2007 totaled $10,126.

9. CAPITALIZED LEASE – LESSEE DISCLOSURE (Continued)

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2007.

Long-Term Debt	Balance 07/01/06	Additions	Reductions	Balance 06/30/07	Amounts Due in One Year
Capital Lease Obligations	$28,084	$0	$10,126	$17,958	$10,702

Year Ending June 30,	Principal	Interest
2008	$ 10,702	$ 854
2009	5,848	307
2010	1,408	32
Total	$ 17,958	$ 1,193

10. 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 $25,962 was paid during the fiscal year, and a liability in the amount of $2,455 was accrued as a liability for the year ended June 30, 2007.

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

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

- Maintain all books and accounts of the Academy;

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

- Assist the Academy in meeting all financial reporting requirements established by the Auditor of Ohio;

- Invest funds of the Academy in the same manner as the funds of the Sponsor are invested, but the Treasurer shall not commingle the funds with any of the Sponsor or any other community school; and

- Pay obligations incurred by the Academy within a reasonable amount of time, not more than 14 calendar days after receipt of a properly executed voucher signed by the Chief Administrative Officer of the Academy so long as the proposed expenditure is within the approved budget and funds are available.

11. PURCHASED SERVICE EXPENSES

For the year ended June 30, 2007, purchased service expenses were payments for services rendered by various vendors, and is as follows:

PURCHASED SERVICES		
Professional and Technical Services	$	113,447
Property Services		212,461
Travel Mileage/Meeting Expense		45,670
Communications		22,121
Utilities		7,267
Contracted Craft or Trade Services		1,527
Total Purchased Services	$	402,493

12. OPERATING LEASES

The Academy renewed a lease for the period August 1, 2005 through July 31, 2008 with "Good Shepherd Parish" for space to house the Academy. Payments made totaled $173,000 for the year.

The future annual lease payments are as follows:

Year Ending June 30,		Amounts
2008	$	179,500
2009		15,000
Total	$	194,500

13. CONTINGENT LIABILITIES

A. Grants

The Academy receives significant financial assistance from numerous 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 General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the Academy at June 30, 2007.

B. School Funding

The Ohio Department of Education reviews enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated.

C. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001 alleging that Ohio's Community (i.e., Charter) School programs violate the State Constitution and state laws. On April 23, 2004, the Court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed and the case was heard on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the State public educational system and this matter was sent to the Ohio Supreme Court. The effect of this suit, if any, on the Academy is not presently determinable.

BALESTRA, HARR & SCHERER CPAs, INC.
528 South West Street, P.O. Box 687
Piketon, Ohio 45661

Telephone (740) 289-4131
Fax (740) 289-3639
www.bhscpas.com

Member American Institute of Certified Public Accountants Ohio Society of Certified Public Accountants

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

Members of the Board
Aurora Academy
Lucas County, Ohio
541 Utah Street
Toledo, Ohio 43605

We have audited the accompanying financial statements of the business-type activities of the Aurora Academy, Lucas County, Ohio (the Academy), as of and for the year ended June 30, 2007, and have issued our report thereon dated March 15, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over financial reporting.

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Academy's internal control.

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

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

We noted certain matters that we reported to management of the Academy in a separate letter dated March 15, 2008.

This report is intended solely for the information and use of management and members of the Board and is not intended to be and should not be used by anyone other than these specified parties.

Balestra, Harr & Scherer

Balestra, Harr & Scherer, CPAs, Inc.

March 15, 2008

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 8, 2008