AURORA ACADEMY
LUCAS COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2006

Mary Taylor, CPA
Auditor of State

AURORA ACADEMY
LUCAS COUNTY

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INDEPENDENT ACCOUNTANTS' REPORT

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

To the Governing Board:

We have audited the accompanying basic financial statements of Aurora Academy, Lucas County, Ohio (the Academy), as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Academy, as of June 30, 2006, and the changes in its financial position and its 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 June 11, 2007, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

June 11, 2007

AURORA ACADEMY
LUCAS COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED

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, 2006. 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 $633,850.
- Total Liabilities were $100,493.
- Change in Net Assets was $305,653.

Using this Annual Financial Report

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

Reporting the Academy as a Whole

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

These two statements report the Academy's net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net assets – as reported in the Statement of Net Assets – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results. However, the Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the Academy, to assess the overall health of the Academy.

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

Table 1 provides a summary of the Academy's net assets for 2006 compared to 2005:

Table 1
Net Assets

	2006	2005
Assets		
Current Assets	$ 551,076	$ 387,336
Capital Assets, Net	82,774	98,015
Total Assets	633,850	485,351
Liabilities		
Current Liabilities	72,409	219,978
Noncurrent Liabilities	28,084	37,669
Total Liabilities	100,493	257,647
Net Assets		
Invested in Capital Assets	54,690	60,346
Restricted for Grants	21,287	6,052
Unrestricted	457,380	161,306
Total Net Assets	$ 533,357	$ 227,704

Total assets increased by $148,499, which represents a 30.60 percent increase from fiscal year 2005. Cash and cash equivalents increased by $131,564 and intergovernmental receivables increased by $36,860. Total liabilities decreased by $157,154, which represents a 60.99 decrease from 2005. This decrease was mainly due to reduction in the SERS surcharge and accrued wages liabilities. The Academy's net assets increased by $305,653, represents a 134.23 percent increase from 2005.

Table 2 shows the changes in net assets for fiscal year 2006 as compared to fiscal year 2005.

Table 2
Change in Net Assets

	2006	2005
Operating Revenues		
Foundation Basic Aid	$ 794,810	$ 698,056
Poverty-Based Aid	98,258	
Disadvantaged Pupil Impact Aid		148,271
Special Education	391,381	429,805
Food Services	1,502	1,764
Transportation		1,132
Other Operating Revenues	9,419	4,887
Non-Operating Revenues		
Federal and State Grants	244,086	224,323
Contributions and Donations	5,480	6,712
Interest and Fiscal Charges	9,622	3,115
Total Revenues	1,554,558	1,518,065

Table 2
Change in Net Assets (Continued)

	2006	2005
Operating Expenses		
Salaries	543,035	798,056
Fringe Benefits	158,499	216,725
Purchased Services	402,988	381,119
Materials and Supplies	75,995	50,250
Depreciation	50,962	53,792
Other Expenses	15,197	16,944
Non-Operating Expenses		
Loss on Disposal of Capital Asset	258	
Interest and Fiscal Charges	1,971	1,938
Total Expenses	1,248,905	1,518,824
Change in Net Assets	$ 305,653	$ (759)

State Foundation Basic Aid, Poverty-Based Aid, and Special Education, as a whole, are the primary support for the Academy, representing 82.62 percent of the total revenue. There was an increase in revenues of $36,493 and a decrease in expenses of $269,919 from fiscal year 2005. Of the increase in revenues, the foundation payments increased by $96,754. Community Schools receive no support from tax revenues.

Salaries and Fringe Benefits comprise 56.17 percent of total expenses. There were decreases in expense of $255,021for salaries and $58,226 for fringe benefits for fiscal year 2005. This was primarily due to staff reduction throughout the 2006 school year. There was an increase in expense of $25,745 for material and supplies due to more material and supplies being purchased during the fiscal year.

Capital Assets

At the end of fiscal year 2006 the Academy had $82,774 (net of $302,189 in accumulated depreciation) invested in furniture, fixture and equipment and leasehold improvements. Table 3 shows fiscal year 2006 balances compared to fiscal year 2005:

Table 3
Capital Asset
(Net of Depreciation)

	2006	2005
Furniture, Fixtures, and Equipment	$ 62,559	$ 64,192
Leasehold Improvements	20,215	33,823
Totals	$ 82,774	$ 98,015

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

Capital Lease

At June 30, 2006, the Academy had $28,084 in capital leases payable, which is reported as a noncurrent liability. Table 4 shows fiscal year 2006 balances compared to fiscal year 2005:

Table 4
Outstanding Debt

	2006	2005
Capital Lease Payable	$ 28,084	$ 37,669
Totals	$ 28,084	$ 37,669

For more information on the capital leases, see Note 10 to the basic financial statements.

Current Financial Issues

The Academy's financial relationship with the Lucas County Educational Service Center aids in the raising of the quality of financial records and strengthens internal controls. During the 2005-2006 school year, there were approximately 127 students enrolled in the Academy. The Academy receives its finances mostly from state aid. Per pupil aid for fiscal year 2006 amounted to $5,283 per student.

Contacting the Academy's Financial Management

This financial report is designed to provide our citizen's with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional information contact Mr. Jeff Mangas, Business Manager of Aurora Academy, 541 Utah Street, Toledo, Ohio 43605-2295 or e-mail at aurora_jm@nwoca.org.

AURORA ACADEMY
LUCAS COUNTY

Statement of Net Assets
As of June 30, 2006

Assets		
Current Assets:		
Cash and Cash Equivalents	$	484,157
Intergovernmental Receivables		41,728
Prepaid Items		25,191
Total Current Assets		551,076
Non-Current Assets:		
Capital Assets, Net of Accumulated Depreciation		82,774
Total Noncurrent Assets		82,774
Total Assets		633,850
Liabilities		
Current Liabilities:		
Accounts Payable		15,422
Accrued Wages and Benefits Payable		47,008
Intergovernmental Payable		9,656
Due to Students		323
Total Current Liabilities		72,409
Noncurrent Liabilities:		
Due Within One Year		10,126
Due In More Then One Year		17,958
Total Noncurrent Liabilities		28,084
Total Liabilities		100,493
Net Assets		
Invested in Capital Assets, Net of Related Debt		54,690
Restricted for Grants		21,287
Unrestricted		457,380
Total Net Assets	$	533,357

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, 2006

Operating Revenues	
Foundation Basic Aid	$ 794,810
Poverty-Based Assistance	98,258
Special Education	391,381
Food Services	1,502
Other Operating Revenues	9,419
Total Operating Revenues	1,295,370
Operating Expenses	
Salaries	543,035
Fringe Benefits	158,499
Purchased Services	402,988
Materials and Supplies	75,995
Depreciation	50,962
Other Operating Expenses	15,197
Total Operating Expenses	1,246,676
Operating Income	48,694
Non-Operating Revenues and Expenses	
Operating Grants - Federal	231,891
Operating Grants - State	12,195
Contributions and Donations	5,480
Loss on Disposal of Asset	(258)
Interest	9,622
Interest and Fiscal Charges	(1,971)
Total Non-Operating Revenues and (Expenses)	256,959
Change in Net Assets	305,653
Net Assets at Beginning of Year	227,704
Net Assets at End of Year	$ 533,357

See Accompanying Notes to the Basic Financial Statements

AURORA ACADEMY
LUCAS COUNTY

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2006

Increase/(Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities:		
Cash Received from State of Ohio	$	1,269,002
Cash Received from Food Services		1,502
Cash Received from Other Operating Sources		9,419
Cash Payments to Suppliers for Goods and Services		(487,077)
Cash Payments to Employees for Services		(660,390)
Cash Payments for Employee Benefits		(177,234)
Net Cash Used for Operating Activities		(44,778)
Cash Flows from Noncapital Financing Activities:		
Operating Grants Received - Federal		195,031
Operating Grants Received - State		12,195
Cash Received Contributions and Donations		5,480
Net Cash Provided by Noncapital Financing Activities		212,706
Cash Flows from Capital and Related Financing Activities:		
Cash Payments for Capital Acquisitions		(34,430)
Principal Payments		(9,585)
Interest Payments		(1,971)
Net Cash Used for Capital and Related Financing Activities		(45,986)
Cash Flows from Investing Activities:		
Cash Received from Interest on Investments		9,622
Net Cash Provided by Investing Activities		9,622
Net Increase in Cash and Cash Equivalents		131,564
Cash and Cash Equivalents at Beginning of Year		352,593
Cash and Cash Equivalents at End of Year	$	484,157

(Continued)

AURORA ACADEMY
LUCAS COUNTY

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2006

Reconciliation of Operating Income to Net Cash Used for Operating Activities:		
Operating Income	$	48,694
Adjustments to Reconcile Operating Income to Net Cash Used for Operating Activities		
Depreciation		50,962
Changes in Assets and Liabilities:		
Decrease in Prepaid Items		4,684
Increase in Accounts Payable		3,457
Decrease in Accrued Wages Payable		(111,264)
Decrease in Due to Students		(50)
Decrease in Intergovernmental Payable		(41,261)
Net Cash Used for Operating Activities	$	(44,778)

See Accompanying Notes to the Basic Financial Statements

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

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

The Academy was approved for operation under an amended and restated contract with the Lucas County Educational Service Center (the Sponsor) for a period of one year commencing July 1, 2005. The contract terminates on June 30, 2006. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The sponsorship agreement states the Treasurer of Lucas County Educational Service Center shall serve as the Chief Financial Officer of the Academy (see Note 11). The Academy contracted with a new sponsor; Buckeye Community Hope Foundation commencing July 1, 2006 and ending June 30, 2009.

The Academy operates under the direction of a six-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 11 non-certified and 14 certificated full time teaching personnel who provide services to 127 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 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

B. Measurement Focus

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

C. Basis of Accounting

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

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

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

Expenses are recognized at the time they are incurred.

D. Budgetary Process

The contract between the Academy and its Sponsor prescribes an annual budget requirement in addition to preparing a 5-year forecast, which is to be updated on an annual basis. Chapter 5705.391(A) of the Ohio Revised Code also requires the Academy to prepare a 5-year forecast, update it annually, and submit it to the Superintendent of Public Instruction at the Ohio Department of Education.

E. Cash and Investments

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

During fiscal year 2006, investments were limited to STAR Ohio. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2006.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2006, 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.

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 used either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditor, grantor, or laws 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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 and special education 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, the State Poverty-Based 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.

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

Custodial credit risk is the risk that in the event of bank failure, the Academy will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year ended June 30, 2006, $339,554 of the Academy's bank balances of $469,554 was exposed to custodial credit risk because those deposits were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Academy's name.

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

3. DEPOSITS AND INVESTMENTS – (Continued)

Investments

As of June 30, 2006, the Academy's investments total $45,236 which is maintained in a STAR Ohio account. At June 30, 2006, STAR Ohio received the Standard & Poor's highest credit rating of AAAm.

4. RECEIVABLES

Receivables at June 30, 2006, 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	$ 28,259
Title V	1,008
Title IV	1,687
E-Rate	286
Title IIA	9,253
Title IID	1,235
Total Intergovernmental Receivables	$ 41,728

5. CAPITAL ASSETS

A summary of the Academy's capital assets at June 30, 2006, follows:

	Balance 06/30/05	Additions	Deductions	Balance 06/30/06
Capital Assets:				
Furniture, Fixtures, and Equipment	$ 254,440	$ 35,979	$ 1,297	$ 289,122
Leasehold Improvements	95,841			95,841
Total Capital Assets	350,281	35,979	1,297	384,963
Less: Accumulated Depreciation				
Furniture, Fixtures, and Equipment	(190,248)	(37,354)	(1,039)	(226,563)
Leasehold Improvements	(62,018)	(13,608)		(75,626)
Total Accumulated Depreciation	(252,266)	(50,962)	(1,039)	(302,189)
Total Capital Assets, Net of Accumulated Depreciation	$ 98,015	$ (14,983)	$ 258	$ 82,774

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 2006, 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 Aggregate ($5,000 Deductible)	1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. The Academy owns no real property, but leases a facility located at 541 S. Utah Street, Toledo, Ohio. (See Note 13)

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 through the Lucas County Educational Service Center to provide employee medical, dental, and vision insurance to its full time employees.

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 contacting the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling toll free 1-800-878-5853 or by visiting the SERS Ohio Web site at www.ohsers.org.

7. DEFINED BENEFIT PENSION PLANS – (Continued)

For the fiscal year ended June 30, 2006, 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 2006 was 14 percent of annual covered payroll; 10.58 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 contribution for pension obligations to SERS for the fiscal years ending June 30, 2006, 2005, and 2004, were $23,611, $21,342, and $29,952, respectively; 100 percent has been contributed for fiscal years 2006, 2005 and 2004.

B. State Teachers Retirement Systems

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. 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 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.

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.

7. DEFINED BENEFIT PENSION PLANS – (Continued)

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.

Eligible faculty of Ohio' public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offer by their employer. Employees have 120 days from their employment date to select a retirement plan.

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 dependent. 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.

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. Contributions rate 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.

7. DEFINED BENEFIT PENSION PLANS – (Continued)

For the fiscal year ended June 30, 2006, 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 contribution for pension obligations for the fiscal years ended June 30, 2006, 2005 and 2004 were $56,840, $62,344 and $62,462, respectively; 100 percent has been contributed for fiscal years 2006, 2005, and 2004.

STRS Ohio issues a stand-alone financial report. Copies of STRS Ohio 2007 Comprehensive Annual Financial Report will be available after January 1, 2007. Additional information or copies of STRS Ohio's 2006 Comprehensive Annual Financial Report can be requested by writing to STRS Ohio, 275 E. Board St., Columbus, Ohio 43215-3771, by calling toll free 1-888-227-7877, or by visiting the STRS Ohio Web 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 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, 2006, the healthcare allocation is 3.42 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 2006, 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.

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the fiscal year ending June 30, 2006, were $158,751,207. 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, 2006, the value of the health care fund was $295.6 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 59,492.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For fiscal year June 30, 2006, the Board allocated employer contributions equal to 3.42 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 $10,779 for the fiscal year ended June 30, 2006.

8. POSTEMPLOYMENT BENEFITS – (Continued)

B. State Teachers Retirement System

STRS Ohio provides access to health care coverage to retirees who participated in the Defined Benefit or Combined Plans 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, 2006, and June 30, 2005, 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 $3.5 billion as of June 30, 2006. For the Academy, this amount equaled $4,372 for the fiscal year ended June 30, 2006.

For the fiscal year ended June 30, 2006, net health care costs paid by STRS Ohio were $282,743,000. There were 119,184 eligible benefit recipients.

9. CONTINGENT LIABILITIES

A. Grants

The Academy receives significant 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 Academy. However, in the opinion of management, any disallowed claims will not have an adverse material effect on the overall financial position of the Academy at June 30, 2006.

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. For fiscal year 2006, this review resulted in an overpayment of $1,663. This amount has been accrued on the financial statements as an intergovernmental payable. This amount will be deducted from the Academy's 2007 monthly foundation payments.

9. CONTINGENT LIABILITIES – (Continued)

C. Litigation

A suit was filed in the US District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under the Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The case is still pending. The effect of this suit, if any, on the Academy is not presently determinable.

10. CAPITALIZED LEASE – LESSEE DISCLOSURE

During 2003 and 2004, the Academy entered into two capital leases for copy machines. Each 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 leases have been recorded at the present value of the future minimum lease payments as of the inception date. Payments made totaled $11,556 for the year.

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, 2006.

Long-Term Debt	Balance 07/01/05	Additions	Reductions	Balance 06/30/06	Amounts Due in One Year
Capital Lease Obligations	37,669		9,585	28,084	10,126
Total	$ 37,669	$ -	$ 9,585	$ 28,084	$ 10,126

Year Ending June 30,	Principal	Interest
2007	$ 10,126	$ 1,429
2008	10,702	854
2009	5,848	307
2010	1,408	32
Total	$ 28,084	$ 2,622

11. FISCAL AGENT

The Academy entered into a service agreement as part of its Sponsorship contract with the Treasurer of the Lucas County Educational Service Center to serve as the Chief Fiscal Officer of the Academy. As part of this agreement, the Academy shall compensate the Lucas County Educational Service Center two percent (2%) of the per pupil allotment paid to the Academy from the State of Ohio. A total contract payment of $27,002 was paid during the fiscal year, and a liability in the amount of $1,499 was accrued for the year ended June 30, 2006.

11. FISCAL AGENT – (Continued)

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.

12. PURCHASED SERVICE EXPENSES

For the year ended June 30, 2006, purchased service expenses were payments for services rendered by various vendors, as follows:

PURCHASED SERVICES	
Professional and Technical Services	$ 103,195
Property Services	193,811
Travel Mileage/Meeting Expense	48,799
Communications	26,198
Utilities	21,425
Contracted Craft or Trade Services	9,560
Total Purchased Services	$ 402,988

13. 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 $167,500 for the year.

The future annual lease payments are as follows:

Year Ending June 30,	Amounts
2007	$ 173,500
2008	179,500
2009	15,000
Total	$ 368,000

14. RELATED PARTY TRANSACTION

During the fiscal year 2006, the Academy paid Rosiland Grant $17,221 in compensation for working as a food service employee. Ms. Grant was a member of the Academy's governing board during fiscal year ended June 30, 2006. She resigned from the governing board effective June 28, 2006.

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INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

To the Governing Board:

We have audited the basic financial statements of Aurora Academy, Lucas County, Ohio (the Academy) as of and for the year ended June 30, 2006 and have issued our report thereon dated June 11, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Academy's management dated June 11, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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

Mary Taylor, CPA
Auditor of State

June 11, 2007

Mary Taylor, CPA
Auditor of State

AURORA ACADEMY

LUCAS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JULY 10, 2007

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