



**AURORA ACADEMY
LUCAS COUNTY
REGULAR AUDIT
FOR THE PERIOD ENDED JUNE 30, 1999**



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**AURORA ACADEMY
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REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Governing Board:

We have audited the Balance Sheet of Aurora Academy, Lucas County, (Aurora) as of June 30, 1999 and the related Statement of Revenues, Expenses, and Changes in Retained Earnings, and the Statement of Cash Flows for the fiscal period August 17, 1998 through June 30, 1999. These financial statements are the responsibility of Aurora's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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 Aurora as of June 30, 1999, and the results of operations and its cash flows for the period then ended in conformity with generally accepted accounting principles.

As discussed in Note 14, Aurora is in the process of applying for federal tax exemption pursuant to Internal Revenue Code Section 501(c)(3). Aurora has made no provisions for any potential tax liability which could result if exempt status is not obtained.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2000 on our consideration of Aurora's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

A handwritten signature in black ink, appearing to read "Jim Petro".

Jim Petro
Auditor of State

May 31, 2000

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**AURORA ACADEMY
BALANCE SHEET
AS OF JUNE 30, 1999**

Assets:

Current Assets:

Cash and Cash Equivalents with Fiscal Agent	\$71,351
Intergovernmental Receivables	<u>167,119</u>
Total Current Assets	<u>238,470</u>

Non-Current Assets:

Fixed Assets (Net of Accumulated Depreciation)	<u>48,714</u>
Total Assets	<u><u>\$287,184</u></u>

Liabilities and Fund Equity:

Current Liabilities:

Accounts Payable	\$2,107
Contracts Payable	641
Accrued Wages and Benefits	2,191
Intergovernmental Payable	8,772
Obligation under Capital Lease	<u>3,750</u>
Total Current Liabilities	<u>17,461</u>

Long-Term Liabilities:

Obligation under Capital Lease	<u>10,581</u>
Total Liabilities	<u>28,042</u>

Fund Equity:

Retained Earnings: Unreserved	<u>259,142</u>
Total Liabilities and Fund Equity	<u><u>\$287,184</u></u>

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

**AURORA ACADEMY
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS
FOR THE FISCAL PERIOD AUGUST 17, 1998 THROUGH JUNE 30, 1999**

Operating Revenues:

Foundation Payments	\$888,373
Disadvantaged Public Impact Aid	25,053
Other Operating Revenues	<u>13,227</u>
Total Operating Revenues	<u>926,653</u>

Operating Expenses:

Salaries	395,901
Fringe Benefits	158,045
Purchased Services (see note 13)	209,530
Materials and Supplies	68,421
Depreciation	12,178
Other Operating Expenses	<u>31,644</u>
Total Operating Expenses	<u>875,719</u>
Operating Income	<u>50,934</u>

Non-Operating Revenues:

Interest Earnings	3,894
Operating Grants	<u>204,314</u>
Total Non-Operating Revenues	<u>208,208</u>
Net Income	259,142
Retained Earnings at Beginning of Year	<u> </u>
Retained Earnings at End of Year	<u><u>\$259,142</u></u>

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

**AURORA ACADEMY
STATEMENT OF CASH FLOWS
FOR THE FISCAL PERIOD AUGUST 17, 1998 THROUGH JUNE 30, 1999**

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$750,598
Cash Payments to Suppliers for Goods and Services	(292,516)
Cash Payments to Employees for Services	(542,983)
Other Operating Revenue	<u>8,936</u>
Net Cash Used by Operating Activities	<u>(75,965)</u>

Cash Flows from Noncapital Financing Activities:

Operating Grants Received	<u>204,314</u>
Net Cash Provided by Noncapital Financing Activities	<u>204,314</u>

Cash Flows from Capital and Related Financing Activities:

Payments for Capital Acquisitions	<u>(60,892)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(60,892)</u>

Cash Flows from Investing Activities:

Interest on Investments	<u>3,894</u>
Net Cash Provided by Investing Activities	<u>3,894</u>
Net Increase in Cash and Cash Equivalents	71,351
Cash and Cash Equivalents at the Beginning of the Year	<u> </u>
Cash and Cash Equivalents at the End of the Year	<u><u>\$71,351</u></u>

(Continued)

AURORA ACADEMY
STATEMENT OF CASH FLOWS
FOR THE FISCAL PERIOD AUGUST 17, 1998 THROUGH JUNE 30, 1999
(Continued)

**Reconciliation of Operating Income to
Net Cash Provided by Operating Activities**

Operating Income	<u>\$50,934</u>
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**Adjustments to Reconcile Operating Income to
Net Cash Provided by Operating Activities:**

Depreciation	12,178
Changes in Assets and Liabilities:	
(Increase) in Accounts Receivable	(167,119)
Increase in Obligations under Capital Lease	14,331
Increase in Accounts Payable	2,107
Increase in Contracts Payable	641
Increase in Accrued Wages Payable	2,191
Increase in Intergovernmental Payable	<u>8,772</u>
Total Adjustments	<u>(126,899)</u>
Net Cash Used by Operating Activities	<u><u>(\$75,965)</u></u>

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

**AURORA ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Aurora Academy (Aurora) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. Aurora's objective is to provide and coordinate educational, social, recreational, mental, physical, and emotional services to at-risk and typical children in a multiage learning community that serves the child and the child's family group. Aurora, 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. Aurora may acquire facilities as needed and contract for any services necessary for the operation of the school.

Aurora was approved for operation under a contract with the Lucas County Educational Service Center (the Sponsor) for a period of five years commencing August 17, 1998. The Sponsor is responsible for evaluating the performance of Aurora 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 Aurora, (see Note 12).

Aurora operates under the direction of a five-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 Aurora's one instructional/support facility staffed by 12 non-certified and 13 certificated full time teaching personnel who provide services to 123 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Equity (i.e., net total assets) is segregated into contributed capital and retained earnings components.

AURORA ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

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

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

C. Budgetary Process

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

D. Cash and Cash Equivalents

All monies received by Aurora are accounted for by Aurora's fiscal agent, the Lucas County Educational Service Center. All cash received by the fiscal agent is maintained in separate bank accounts in Aurora's name. Monies for all funds of Aurora are maintained in these accounts or temporarily used to purchase short-term investments. For purposes of the statement of cash flows and for presentation on the balance sheet, investments with a maturity of three months or less at the time they are purchased by Aurora are considered to be cash equivalents.

E. Fixed Assets and Depreciation

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

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

Depreciation of furniture and equipment is computed using the straight-line method over an estimated useful life of five years. Improvements to fixed assets are depreciated over the remaining useful lives of the related fixed assets.

F. Intergovernmental Revenues

Aurora currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid (DPIA) Program, and the State Special Education Program. Revenues from these programs are recognized as operating revenues in the accounting period in which they are earned and become measurable.

Aurora also participates in the Charter School Grant Program through the Ohio Department of Education. Under this program, Aurora was awarded \$50,000 for the planning phase of the school. Additionally, the Sponsor, as part of the Lucas County pilot project, awarded Aurora

AURORA ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

\$100,000 to partially defray school start-up costs. Revenues from these programs are recognized as non-operating revenue on the accompanying financial statements.

Commodities, grants and entitlements are recognized as non-operating revenues in the accounting period in which they are earned and became measurable.

3. RECEIVABLES

Receivables at June 30, 1999, consisted of other operating revenue and intergovernmental (e.g., foundation) receivables. All intergovernmental receivables are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

4. DEPOSITS AND INVESTMENTS

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

At June 30, 1999, the carrying amount of Aurora's deposits was \$15,392 and the bank balance was \$34,949. The bank balance was covered by federal depository insurance.

Aurora's investments are categorized to give an indication of the level of risk assumed by Aurora at fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by Aurora or its agent in Aurora's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in Aurora's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in Aurora's name. Aurora's investments totaling \$55,959 (fair value), which are maintained in a Ready Resource Savings Account (repurchase agreement) are included in Category 2.

5. FIXED ASSETS

A summary of Aurora's fixed assets at June 30, 1999, follows:

Furniture and Equipment	\$60,892
Less: accumulated depreciation	<u>(12,178)</u>
Net Fixed Assets	<u><u>\$48,714</u></u>

There was no significant construction in progress at June 30, 1999.

6. RISK MANAGEMENT

A. Property and Liability

Aurora 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 period August 17, 1998 through June 30, 1999, Aurora contracted with Harcum-Hyre Insurance Agency, Inc. for property and general liability insurance.

AURORA ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

Professional liability is protected by insurance held by the Harcum-Hyre Insurance Agency, Inc. with a \$2,000,000 single occurrence limit and \$5,000,000 aggregate and no deductible.

B. Workers' Compensation

Aurora 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. Employee Medical, Dental, and Vision Benefits

Aurora has contracted with its Sponsor, 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. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security System. As of June 30, 1999, Aurora has no employees or members of the governing board which contribute to the Social Security System.

B. School Employees Retirement System

Aurora contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. That report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and Aurora is required to contribute 14 percent; for the fiscal period August 17, 1998 through June 30, 1999, 7.7 percent was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by SERS's Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. Aurora's required contribution for pension obligations to SERS for the fiscal period August 17, 1998 through June 30, 1999 was \$22,071, 98.6 percent has been contributed for the fiscal period August 17, 1998 through June 30, 1999, and \$307 representing the unpaid contribution which has been recorded as a liability.

C. State Teachers Retirement System

Aurora contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established

AURORA ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and Aurora is required to contribute 14 percent; 6 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Aurora's required contribution for pension obligations to STRS for the fiscal period August 17, 1998 through June 30, 1999 was \$32,586, 100 percent has been contributed for the fiscal period.

8. POSTEMPLOYMENT BENEFITS

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

For STRS, all benefit recipients are required to pay a portion of health care costs in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The Governing Board currently allocates employer contributions equal to two percent of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. For Aurora, this amount equaled \$652 during the fiscal period August 17, 1998 through June 30, 1999.

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

For this fiscal period, employer contributions to fund health care benefits were 3.5 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For the fiscal period August 17, 1998 through June 30, 1999, the minimum pay has been established at \$12,400. For Aurora, the amount to fund health care benefits, including surcharge, equaled \$7,687 during the fiscal period August 17, 1998 through June 30, 1999.

9. STATE SCHOOL FUNDING DECISION

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to Aurora. During the fiscal period ended June 30, 1999, Aurora received \$888,373 of school foundation support.

AURORA ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State legislature in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court and on May 11, 2000, the Ohio Supreme Court rendered an opinion on this issue. The Court concluded, "...the mandate of the [Ohio] Constitution has not been fulfilled." The Court's majority recognized efforts by the Ohio General Assembly taken in response to the Court's March 24, 1997, decision, however, it found seven "...major areas warrant[ing] further attention, study, and development by the General Assembly...", including the State's reliance on local property tax funding, the state's basic aid formula, the school foundation program, the mechanism for, and adequacy of, funding for school facilities, and the existence of the State's School Solvency Assistance Fund, which the Court found took the place of the unconstitutional emergency school loan assistance program.

The Court decided to maintain jurisdiction over these issues and continued the case at least until June 15, 2001.

As of the date of these financial statements, Aurora is unable to determine what effect, if any, this ongoing litigation will have on its future State funding under this program and on its financial operations.

10. CONTINGENCIES

Grants

Aurora received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of Aurora at June 30, 1999.

Litigation

Aurora is not a party to any litigation proceedings.

11. CAPITALIZED LEASES - LESSEE DISCLOSURE

During fiscal year 1999, Aurora entered into a capitalized lease for a copying machine. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. The capital lease has been recorded at the present value of the future minimum lease payments as of the inception date.

**AURORA ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)**

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 1999.

Fiscal Period Ending June 30,	
1999	\$3,750
2000	3,750
2001	3,750
2002	3,750
2003	937
Total minimum lease payments	15,937
Less: amount representing interest	(1,606)
Present value of minimum lease payments	\$14,331

12. FISCAL AGENT

The sponsorship agreement states the Treasurer of the Lucas County Educational Service Center shall serve as the Chief Financial Officer of Aurora Academy. As part of this agreement, Aurora shall compensate the Lucas County Educational Service Center 4 percent of the per pupil allotments paid to Aurora from the State of Ohio.

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

1. Maintain custody of all funds received by the school in segregated accounts separate from the Sponsor's or any other Community School's funds;
2. Maintain all books and accounts of all funds of the school;
3. Maintain all financial records of all state funds of the school and follow State Auditor procedures for receiving and expending state funds;
4. Assist the school in meeting all financial reporting requirements established by the Auditor of Ohio;
5. Invest funds of the school 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
6. Pay obligations incurred by the school within a reasonable amount of time, not more than 14 calendar days after receipt of a properly executed voucher signed by the Chief Administrative Officer of the school so long as the proposed expenditure is within the approved budget and funds are available.

13. PURCHASED SERVICE EXPENSES

For the fiscal period August 17, 1998 through June 30, 1999, purchased service expenses were payments for services rendered by various vendors, as follows:

AURORA ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

PURCHASED SERVICES

Rent - Good Shepard Church	\$146,760
Consultation - Staff Training and Seminars	12,185
Food Services	11,515
Accounting Services - (See Note 12)	10,000
Copier	7,102
Transportation Services	6,000
Security Services	4,765
Interpreting/Speech Services	3,982
Phone Installation	3,624
Maintenance Services	3,271
Legal Services	<u>326</u>
Total Purchased Services	<u><u>\$209,530</u></u>

14. TAX EXEMPT STATUS

Aurora has not filed for tax exempt status under § 501(c)(3) of the Internal Revenue Code. Management is currently in the process of completing the required forms. Aurora has made no provision for any potential future tax liability which could result from not obtaining the § 501(c)(3) tax exempt status.



STATE OF OHIO
OFFICE OF THE AUDITOR

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

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

To the Governing Board:

We have audited the financial statements of Aurora Academy, Lucas County, (Aurora) for the fiscal period August 17, 1998 through June 30, 1999, and have issued our report thereon dated May 31, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Aurora's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 1999-10148-001 and 1999-10148-002. We also noted certain immaterial instances of noncompliance that we have reported to management of Aurora in a separate letter dated May 31, 2000.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Aurora's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Aurora's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings as items 1999-10148-003, 1999-10148-004, and 1999-10148-005.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above we believe item 1999-10148-003 is a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of Aurora in a separate letter dated May 31, 2000.

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



Jim Petro
Auditor of State

May 31, 2000

**AURORA ACADEMY
SCHEDULE OF FINDINGS
FOR THE FISCAL PERIOD ENDED JUNE 30, 1999**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 1999-10148-001

Finding for Recovery

Ohio Revised Code § 117.28, requires audit reports to set forth all instances of any public property which has been converted or misappropriated.

In February 1999, Terri Riches submitted an invoice to the School for \$600 for the sale of her personal computer, monitor and printer. The school issued her check #1209 on February 8, 1999 for \$600. Also, in May 1999 she submitted for reimbursement various receipts for items purchased by her for school purposes, including a red tailed boa snake (\$149.99) and one deluxe ferret cage (\$224.96). The school issued her check #1309 on May 21, 1999 for reimbursement of these items.

On Terri Riches last day of employment she was observed leaving the school building with the snake and the ferret cage. Further, the computer, printer and monitor could not be located. In addition, none of these items have been found to be at the school since her last day of employment.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code § 117.28, a finding for recovery for public funds which have been converted or misappropriated is hereby issued against Terri Riches, in the amount of \$974.95 and is in favor of the Aurora Academy Community School.

FINDING NUMBER 1999-10148-002

Noncompliance Citation

Ohio Revised Code § 3314.03 (A) (10) qualification of teachers, requires the School's classroom teachers be licensed in accordance with §§ 3319.22 to 3319.31 of the Revised Code.

Aurora employed 16 teachers and Aurora was only able to verify 5 teacher's certificates. There was no supporting documentation (certificates) to back up the list of other teachers who are required to be certified.

We recommend that all teachers employed by Aurora be certified and their certifications be maintained in their personnel files.

FINDING NUMBER 1999-10148-003

Material Weakness - Fixed Assets

The following control weaknesses over fixed assets exist:

- Aurora has not developed a fixed asset accounting system which maintains total fixed asset listings, by location, with tag identification numbers and other supplemental information.
- Aurora has not accurately developed and implemented procedures to assist in recording assets as additions when purchased, and deletions when disposed of throughout the fiscal year.

**FINDING NUMBER 1999-10148-003
(Continued)**

- Aurora has not implemented procedures to perform periodic inventory of assets.
- The Governing Board has not developed a fixed asset policy wherein it sets forth the capitalization criteria for Aurora.

Failure to obtain timely records or employ adequate controls over the acquisition and disposal of fixed assets could result in misappropriation of assets and misstatements of recorded assets.

To maintain adequate safeguards over fixed assets, and to reduce the risk that Aurora's assets will be misstated, we recommend:

- The Governing Board develop and implement procedures to be performed throughout the year, for the recording and updating of fixed assets. These procedures should include tagging all assets meeting Aurora's capitalization criteria. Further, addition and disposal forms should be completed by the Aurora and approved by management when assets are acquired or disposed. This information should then be entered on the fixed asset accounting system, recording such information as the tag number, a description of the item, the cost, the acquisition date, location and any other supporting documentation.
- Aurora develop and implement procedures for performing periodic(annual) physical inventories. The physical inventories can be performed by submitting a list of all fixed assets recorded to each location and having individuals responsible for that location perform the inventory of all assets in that location. The assets in each location should be compared to the listing provided, and any assets no longer used should be deleted and any assets included on the listing should be added. Any significant deficiency should be investigated and documented accordingly.

FINDING NUMBER 1999-10148-004

Reportable Condition - Purchasing Cycle Controls

Aurora should have adequate purchasing policies and procedures in place to assist in preventing and detecting errors or misstatements.

Of the total expenditures for goods and/or services, 33% were reimbursed to employees without proper supporting documentation (i.e. original invoices).

We recommend Aurora only pay expenditures which are accompanied by an original invoice.

FINDING NUMBER 1999-10148-005

Reportable Condition - Tax Exempt Status

Aurora has not applied to the Internal Revenue Service to obtain tax exempt status pursuant to 26 USC 501(c)(3). Failure to be approved as a tax exempt entity could result in a federal tax liability to Aurora, and may jeopardize their ability to continue to operate as a community school pursuant to Ohio law. We recommend Aurora complete and file an application for tax exempt status with the Internal Revenue Service as soon as possible.



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AURORA ACADEMY

LUCAS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 25, 2000**