



**Auditor of State
Betty Montgomery**

**QUEST ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANT'S REPORT

Quest Academy Community School
Allen County
190 East Eighth Street
Lima, Ohio 45804

To the Governing Board:

We have audited the accompanying basic financial statements of Quest Academy Community School, Allen County, (the Academy), as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express opinions 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Academy, as of June 30, 2004, 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.

As described in Note 3, during the year ended June 30, 2004, the Academy implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2005 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.

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

Betty Montgomery
Auditor of State

March 23, 2005

**QUEST ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004**

The discussion and analysis of Quest Academy's (the Academy) financial performance provides an overall view of the Academy's financial activities for the year ended June 30, 2004. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

Total Net Assets were \$259,612
Total Revenue was \$768,464
Total Expenses were \$743,692
Changes in Net Assets were \$24,772
Capital Assets, net of Depreciation, decreased to \$32,225 from \$41,406
Depreciation was larger than acquisitions this year by \$9,181

Quest Academy began its first year of operation during fiscal year 2001 with grades K-2 and added a grade each year until we reached grade 5 during fiscal year 2004. Accordingly, financial balances have increased along with enrollment increases. This trend should continue as we are in discussions to add additional grades in the near future.

Quest Academy continues to have an outstanding auditee/auditor working relationship with the Auditor of State and welcomes any and all recommendations offered as we strive to be best-in-class for financial audits.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Quest Academy as a financial whole, an entire operating entity.

The *Statement of Net Assets* and *Statement of Revenues, Expenses, and Changes in Net Assets* provide information about the activities of the Academy, presenting an aggregate view of the Academy's finances. In the case of Quest Academy, there is only one fund presented.

Reporting the Academy as a Whole

Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets

The view of the Academy as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Revenue, Expenses, and Changes in Net Assets answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Academy's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the Academy as a whole, the *financial position* of the Academy has improved or diminished. The causes of this may be the result of many factors, some financial, some not. Non-financial factors include the Academy's, current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

**QUEST ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

The Academy as a Whole

Recall that the Statement of Net Assets provides the perspective of the Academy as a whole.

Table 1 provides a summary of the Academy's net assets for 2004 compared to 2003:

**Table 1
Statement of Net Assets
(In Thousands)**

	<u>2004</u>	<u>2003</u>
Assets		
Current Assets	\$ 267.7	\$ 221.1
Capital Assets, Net of A/D	32.2	41.4
Total Assets	\$ 299.9	\$ 262.5
Liabilities		
Current Liabilities	\$ 38.6	\$ 22.9
Due More than One Year	1.7	4.8
Total Liabilities	40.3	27.7
Net Assets		
Invested in Capital Assets, Net of Debt	27.5	-
Restricted	68.4	-
Unrestricted	163.7	-
Total Net Assets	\$ 259.6	\$ 234.8

Total assets increased by \$37,421. While cash and cash equivalents increased by \$61,826, total receivables decreased by \$21,805.

The comparison above does not classify net assets for 2003. The 2004 net asset classifications are due to a new accounting principal adopted during 2004. An analysis of cash flows for operating activities during 2004 demonstrates cash payments for activities exceeding unrestricted cash receipts by \$104,937. The net cash provided by non-capital financing activities covers the net cash decrease in operating activities.

Table 2 shows the changes in net assets for the year ended 2004. For comparison purposes, data from the June 30, 2003 year-end is reported to the right of the current year's figures.

Operating Activities

Salaries and Fringe Benefits comprise 68.4 percent of operating expenses. Interest expense was \$711, or 0.1 percent of expenses. Interest expense was attributable to a capital lease for a copier.

The Statement of Revenues, Expenses, and Changes in Net Assets shows the cost of operating expenses and the revenues offsetting those services. Table 2 shows the total amount of operating and non-operating expenses and the revenues associated with those expenses for the year. That is, it identifies the amount of operating expenses supported by State and other funding.

**QUEST ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

**Table 2
Statement of Revenues, Expenses, and Changes in Net Assets
(In Thousands)**

	<u>2004</u>	<u>2003</u>
Operating Revenue		
Foundation Payments	\$ 525.6	\$ 420.3
Disadvantaged Pupil Impact Aid	73.7	74.2
Special Education	9.9	8.2
Food Services	5.4	5.2
Other Operating Revenues	2.2	.7
Total Operating Revenues	616.8	508.6
Operating Expenses		
Salaries	410.1	385.2
Fringe Benefits	100.1	78.1
Purchased Services	158.1	149.0
Materials and Supplies	47.7	79.1
Depreciation Expense	12.4	11.7
Other Operating Expense	14.5	19.6
Total Operating Expenses	742.9	722.7
Non-Operating Revenues and (Expenses)		
Grants – Federal	128.3	246.9
Grants – State	20.5	6.0
Interest	1.2	2.0
Contributions and Donations	1.6	-
Other Non-Operating Revenues and Expenses	(.7)	(1.0)
Total Non-Operating Revenues and (Expenses)	\$ 150.9	\$ 253.9
Change in Net Assets	24.8	39.8

The dependence upon state foundation revenues for operating activities is apparent. Although no general revenues were used to fund instructional activities, the Academy's general revenue is 2 percent of total revenue. The state foundation community, as a whole, is by far the primary support for Quest Academy.

The increase in operating revenues is the result of an increase in enrollment. During 2004, the Academy added an additional grade. During 2003, the Academy received \$150,000 Federal Charter School Grant. This grant funding was not received during 2004. The funding for the Title I federal grant increased \$33,394 for 2004. The net change in these two federal programs account for the overall decrease in non-operating revenues.

The Academy had total revenues of \$768,464 and expenses of \$743,692. The change in net assets for the year was an increase of \$24,772. This increase indicates the Academy is meeting its obligations as a whole.

**QUEST ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004 the Academy had \$32,225 (net of \$29,745 in accumulated depreciation) invested in furniture and equipment. Table 3 shows fiscal 2004 balances compared to 2003:

**Table 3
Capital Assets at June 30
(Net of Depreciation, in Thousands)**

	<u>2004</u>	<u>2003</u>
Furniture and Equipment	\$ 32.2	\$ 41.4
Totals	<u>\$ 32.2</u>	<u>\$ 41.4</u>

Depreciation was larger than acquisitions this year by \$9,181. The lack of an increase in the furniture and equipment account is a result of the Academy only buying necessary furniture and equipment due to the continual use and preservation of existing assets.

Debt

At June 30, 2004 the Academy had \$4,782 in Capital Leases Payable, \$3,098 due within one year. Table 4 summarizes Capital Leases outstanding.

**Table 4
Outstanding Debt, at Year End**

	<u>2004</u>	<u>2003</u>
Capital Leases	\$ 4,782	\$ 7,551
Total Outstanding Debt, at Year End	<u>\$ 4,782</u>	<u>\$ 7,551</u>

For the Future

In conclusion, the Academy depends upon state foundation revenues for operating activities. The Academy has and will continue to plan carefully and prudently to provide the resources to meet student needs over the next several years.

In addition, the Academy has a system of budgeting and internal controls and has been successful in doing well with on-site visits and annual audits.

Contacting the Academy's Financial Management

This financial report is designed to provide our citizen's, taxpayers, investors and creditors 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. Martin Stephens of Quest Academy, 190 E. 8th Street, Lima, Ohio 45804 or e-mail at mstephe2@ford.com.

**QUEST ACADEMY
AILLEN COUNTY**

**STATEMENT OF NET ASSETS
AS OF JUNE 30, 2004**

Assets:

Current Assets:	
Cash and Cash Equivalents with Fiscal Agent	\$189,877
Receivables:	
Intergovernmental	71,073
Prepaid Items	<u>6,773</u>
Total Current Assets	267,723
Non-Current Assets:	
Capital Assets, Net of Accumulated Depreciation	<u>32,225</u>
Total Assets	<u><u>299,948</u></u>

Liabilities:

Current Liabilities:	
Accounts Payable	3,274
Accrued Wages and Benefits Payable	768
Compensated Absences Payable	4,276
Due to Students	3,453
Intergovernmental Payable	23,783
Capital Leases Payable	<u>3,098</u>
Total Current Liabilities	38,652
Long-Term Liabilities:	
Capital Leases Payable	<u>4,782</u>
Total Long-Term Liabilities	4,782
Less: Due Within One Year	<u>(3,098)</u>
Due More than One Year	<u>1,684</u>
Total Liabilities	<u><u>40,336</u></u>

Net Assets:

Investment in Capital Assets, Net of Related Debt	27,443
Restricted	68,431
Unrestricted	<u>163,738</u>
Total Net Assets	<u><u>\$259,612</u></u>

See accompanying notes to the basic financial statements.

Quest Academy
Allen County

Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2004

Operating Revenues:

Foundation Payments	\$525,635
Disadvantaged Pupil Impact Aid	73,668
Special Education	9,925
Food Services	5,364
Other Operating Revenues	2,221
	<hr/>
Total Operating Revenues	616,813

Operating Expenses:

Salaries	410,153
Fringe Benefits	100,174
Purchased Services	158,093
Materials and Supplies	47,688
Depreciation	12,394
Other Operating Expenses	14,479
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Total Operating Expenses	742,981

Operating Loss	<hr/> <u>(126,168)</u>
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Non-Operating Revenues and Expenses:

Grants - Federal	128,309
Grants - State	20,531
Interest	1,241
Contributions and Donations	1,570
Interest and Fiscal Charges	(711)
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Total Non-Operating Revenues and (Expenses)	<hr/> <u>150,940</u>
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Change in Net Assets	24,772
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Net Assets at Beginning of Year	<hr/> <u>234,840</u>
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Net Assets at End of Year	<hr/> <u><u>\$259,612</u></u>
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See Accompanying Notes to the Basic Financial Statements

**QUEST ACADEMY
ALLEN COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$611,213
Cash Received from Other Operating Sources	10,550
Cash Payments to Suppliers for Goods and Services	(226,571)
Cash Payments to Employees for Services	(409,238)
Cash Payments for Employee Benefits	(90,891)
Net Cash Used for Operating Activities	<u>(104,937)</u>

Cash Flows from Noncapital Financing Activities:

Cash Received from Operating Grants - Federal	139,006
Cash Received from Operating Grants - State	6,639
Cash Received Contributions and Donations	26,570
Net Cash Provided by Noncapital Financing Activities	<u>172,215</u>

Cash Flows from Capital and Related Financing Activities:

Cash Payments for Capital Acquisitions	(3,213)
Cash Payments for Principal Payments	(2,769)
Cash Payments for Interest Payments	(711)
Net Cash Used for Capital and Related Financing Activities	<u>(6,693)</u>

Cash Flows from Investing Activities:

Cash Received from Interest on Investments	<u>1,241</u>
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Net Increase in Cash and Cash Equivalents	61,826
Cash and Cash Equivalents at Beginning of Year	<u>128,051</u>
Cash and Cash Equivalents at End of Year	<u><u>189,877</u></u>

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

Operating Loss	(126,168)
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Adjustments to Reconcile Operating Loss
to Net Cash Used for Operating Activities:

Depreciation	12,394
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	89
Increase in Prepaid Items	(6,670)
Decrease in Accounts Payable	(1,684)
Decrease in Accrued Wages Payable	(463)
Increase in Intergovernmental Payable	15,813
Increase in Due to Students	374
Increase in Compensated Absences Payable	1,378
Total Adjustments	<u>21,231</u>

Net Cash Used for Operating Activities	<u><u>(\$104,937)</u></u>
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See accompanying notes to the basic financial statements.

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**QUEST ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Quest Academy Community School (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 a holistic education utilizing the classroom as well as the community. The educational approach addresses multiple learning styles while emphasizing teamwork, community service and family involvement to build on the students' cultural inheritance in order to nurture their individual creativity, talents, and special interests. The Academy is a general population school, although a majority of the students are anticipated to reside in neighborhoods whose populations are "at risk" demographically: low income, low education levels, higher unemployment than surrounding areas, high transience rate, and a correspondingly high percentage of rental homes and aged housing in poor repair.

The Academy provided services to students in grades kindergarten through fifth for the year ended 2004. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the school.

The Academy was approved for operation under a contract with the Ohio State Board of Education (the Sponsor) for a period of five years effective for the 2001-2002 academic school year. 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 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 the Academy's one instructional/support facility staffed by 5 non-certified and 10 certificated full time teaching personnel who provide services to 108 students.

The Academy has entered into a service agreement with the Lucas County Educational Service Center (LCESC) to provide certain financial and accounting services and the Treasurer of Lucas County ESC serves as the Chief Financial Officer of the Academy. (See Note 14)

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 business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of the Academy's accounting policies.

**QUEST ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

Enterprise Accounting

The Academy's basic financial statements consist of statement of net assets; a statement of revenues, expenses, and changes in net assets; and a statement of cash flows.

The Academy's uses enterprise accounting to track and report on its financial activities. 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 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 changes in net assets is appropriate for public policy, management control, accountability or other purposes.

B. Measurement Focus and Basis of Accounting

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 (e.g. revenues) and decreases (e.g. expenses) in net total assets. The statement of cash flow reflects how the Academy finances and meets its cash flow needs.

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy 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 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 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.

C. Budgetary Process

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

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

**QUEST ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

During the year ended 2004, 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, 2004.

E. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid (DPIA) Program, and the State Special Education Program. Revenues 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 have been met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which The Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

The Academy participates in various federal and state programs through the Ohio Department of Education. The programs the Academy participated in during fiscal year 2004 include: Federal Charter Schools, Special Education IDEA Part B, Title I, Title II, Title IV, Title VI, School Lunch and Breakfast programs. Revenue to be received from these programs is recognized as non-operating revenue in the accompanying financial statements.

Amounts awarded under the above named programs for the year ended 2004 totaled \$752,441.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expense is recorded in the year in which services are consumed.

G. Capital Assets and Depreciation

All 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 for tangible assets and fifteen thousand dollars for improvements to capital assets. The Academy does not possess any infrastructure.

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

**QUEST ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

<u>Description</u>	<u>Estimated Lives</u>
Furniture and Other Equipment	5

H. Compensated Absences

Full-time Academy staff earns vacation leave each year, after six months of service, and are allowed to carry over any unused vacation leave to subsequent school years. Vacation leave must be used, in lieu of payment, prior to separation of employment. Personal leave may not be accumulated from year to year, however personal days remaining at June 30 are compensated to each staff member at the rate of \$100 per unused day.

Employees earn sick leave at the rate of 1¼ days per month. Sick leave may accumulate to equal the number of days contracted, plus sixty. Sick leave is not paid upon termination. Upon retirement, regular employees of the Academy shall be entitled to severance pay based upon the monetary value of their accumulated and unused sick leave at the time of retirement at the rate of one-fourth of the first one hundred twenty days plus one-seventh of any days in excess of the 120 days, at the per diem rate at time of retirement. Currently, the Academy does not have any employees eligible to receive severance pay.

I. Accrued Liabilities

The Academy has recognized certain expenses due but unpaid as of June 30, 2004. These expenses are reported as accrued liabilities in the accompanying financial statements, which includes the STRS employer's share of \$108, SERS surcharge of \$21,852, Medicare of \$11, and worker's compensation of \$1,812.

J. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or 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.

K. Estimates

The preparation of the 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.

**QUEST ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

3. CHANGES IN ACCOUNTING PRINCIPLES

For the year ended 2004, the Academy has implemented GASB Statement No. 34, "Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments"; GASB No. 37 "Basic Financial Statements for State and Local Governments: Omnibus", GASB No. 38, "Certain financial Statement Note Disclosures", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2004, there was no effect on fund balance as a result of implementing GASB 37 and 38.

GASB 34 creates new basic financial statements for reporting on the Academy's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting. Except for the restatement explained below, the beginning net assets amount for the business-type activities equals fund equity of the enterprise funds from last year.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of Management's Discussion and Analysis. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

GASB Interpretation of No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

4. DEPOSITS AND INVESTMENTS

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

At June 30, 2004, the carrying amount of the Academy's deposits was \$108,710 and the bank balance was \$121,133. \$100,000 was covered by Federal Depository Insurance Corporation (FDIC) and \$21,133 was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the Federal Deposit Insurance Corporation.

The Academy's investments are categorized to give an indication of the level of risk assumed by the Academy at year-end. Category 1 includes investments insured or registered for which the securities are held by the Academy or its agent in the Academy's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Academy's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Academy's name. The Academy's investments total \$81,167, all of which is maintained in a STAR Ohio account, which is not categorized because it is not evidenced by securities that exist in physical or book form.

**QUEST ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

5. RECEIVABLES

Receivables at June 30, 2004, consisted of accounts and intergovernmental receivables arising from grants, entitlement and shared revenues. All receivables are considered collectable in full. A summary of the principal items of receivables follows:

Receivables	Amount
Intergovernmental	
Student Intervention 1-4 '04	\$ 1,517
IDEA – B '04 – Special Ed	897
Title 1 '04 – Targeted Assistance	45,444
Title V '03 – Innovative Programs	447
Title IVA '03 - Safe & Drug Free	8,472
Title IID '03 – Technology	1,921
Federal Reimbursement – May	6,748
FTE Final Payment	5,627
Total Intergovernmental Receivables	\$71,073

6. CAPITAL ASSETS

Capital asset activity for year ended June 30, 2004, was as follows:

	Balance 06/30/03	Additions	Deductions	Balance 06/30/04
Furniture and Equipment	\$58,757	\$3,213	\$0	\$61,970
Totals at Historical Cost	58,757	3,213		61,970
Less: Accumulated Depreciation	(17,351)	(12,394)		(29,745)
Capital Assets, Net of A/D	\$41,406	(\$9,181)	\$0	\$32,225

7. 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 year ended June 30, 2004, the Academy contracted with the Zurich Insurance Company and American National Life Insurance Company for its insurance coverage as follows:

Commercial General Liability	\$1,000,000
General Aggregate	3,000,000
Automobile Liability	1,000,000
Excess Liability	1,000,000
Directors and Officers Liability	1,000,000
Directors and Officers Aggregate	3,000,000

The Academy owns no real estate, but leases a facility located at 190 E. 8th Street, Lima, Ohio. There has been no reduction in coverage from the prior year and settled claims have not exceeded the Academy's coverage in any of the past three years.

**QUEST ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

7. RISK MANAGEMENT (Continued)

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. Employees Medical and Life Benefits

The Academy has contracted through an independent agent to provide employee medical and life insurance to its full-time employees who work 20 or more hours per week.

8. 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 public employee retirement system administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 9.09 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 year ended June 30, 2004, 2003, and 2002 were \$7,196, \$6,659 and \$4,712 respectively; 100 percent has been paid for the year ended 2004, 2003, and 2002.

B. State Teachers Retirement Systems (STRS)

STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency controlled, managed and supported, in part, by the state or any political subdivision thereof.

Plan Options – Effective July 1, 2001, two new plan options were offered to selected members. 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, 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.

**QUEST ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

8. 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 – Member contributions are allocated by the member, 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.

**QUEST ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

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 become 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.

Plan members were required to contribute 10 percent of their annual covered salary and the Academy is required to contribute 14%; 13% 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% for members and 14% for employers. The Academy's contributions for pension obligations to STRS for the years ended June 30, 2004, 2003, and 2002 were \$42,922, \$39,462, and \$25,617, respectively; 100 percent has been contributed for 2004, 2003, and 2002.

STRS Ohio issues a publicly available financial report. Additional information or copies of STRS Ohio's 2003 *Comprehensive Annual Financial Report* may be obtained by writing to the STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, or by visiting the STRS Ohio Web site www.strsoh.org.

9. POST-EMPLOYMENT BENEFITS

The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certificated employees and their dependents through the School Employees Retirement System (SERS).

State Teachers Retirement System - The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio). Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare 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 benefits recipients pay a portion of the health care costs 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. Through June 30, 2004, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Academy, this amount equaled \$3,302 for the year ended June 30, 2004.

**QUEST ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

9. POST-EMPLOYMENT BENEFITS (Continued)

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.1 billion at June 30, 2004. For the year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

State Employees Retirement System - coverage is made available to service retirees with ten or more 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 period, employer contributions to fund health care benefits were 4.91 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 year ended 2004, the minimum pay had been established at \$24,500. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the Academy, the amount to fund health care benefits, including surcharge, was \$25,739 for the year ended June 30, 2004.

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. Expenses for health care at June 30, 2004 were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, the Retirement System's net assets available for payment of health care benefits as \$300.8 million. The number of benefit recipients currently receiving health care benefits is approximately 62,000.

10. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and personal leave benefits are derived from policies and procedures approved by the Governing Board. No members of the staff had vacation leave earned in the current year that had not been used at year-end. Seven members of the staff had personal leave earned in the current year that had not been used at year-end. The unused personal leave amounts are shown as current liabilities. No member of the staff met the eligibility requirements for the inclusion of sick leave liability.

B. Employee Medical, Dental and Vision Benefits

The Academy has contracted through an independent agent to provide employee medical, dental, and vision insurance to its full time employees who work 20 or more hours per week. The Academy pays a portion of the monthly premiums for all selected coverage (medical, dental and/or vision).

11. CAPITALIZED LEASE - LESSEE DISCLOSURE

During 2001, the Academy entered into a capital 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.

**QUEST ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

11. CAPITALIZED LEASE - LESSEE DISCLOSURE (Continued)

The capital lease has a term of 63 months and is payable monthly. The capital lease principal totaled \$2,769. Monthly lease payments (principal and interest) are \$290. In addition to the lease payments, the lease agreement included a \$45 monthly copy cost and an excess copy charge of \$0.015 per copy for copies in excess of 3,000 on each copier.

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, 2004:

<u>Year Ending</u>	
2005	\$3,480
2006	<u>1,740</u>
Total Minimum Lease Payments	5,220
Less: Amount representing Interest	<u>(438)</u>
Present Value of Minimum Lease Payments	<u>\$4,782</u>

The academy had committed to the purchase of a copier with the Philippine Missionary Baptist Church who also leased a copier. The two copiers were leased under one lease agreement in order to keep costs at a minimum. The Church and the Academy each separately pay their proportionate share of the lease on a monthly basis.

12. OPERATING LEASES

The Academy entered into a lease for classroom facilities with the Philipian Missionary Baptist Church, located at 190 East Eighth Street, Lima, Ohio. The term of the lease is for one year commencing on July 1, 2002 and ending on June 30, 2003. The Academy was also given the option to renew the lease for two additional terms of one year each. The rent for the lease is \$36,000 annually, payable in equal monthly installments of \$3,000 each.

The Academy entered into an operating lease for the period July 15, 2000 through October 15, 2004 with BCL Capital for the use of a Risograph. Base payments made totaled \$3,631 for the year. Additional payments were made for exceeding the monthly minimum number of copies.

The following is a schedule of the future minimum payments required under the operating leases as of June 30, 2004:

<u>Year Ending</u>	<u>Risograph</u>
2005	<u>\$1,072</u>
Total Minimum Lease Payments	<u>\$1,072</u>

13. PURCHASED SERVICES

For the period July 1, 2003 through June 30, 2004, purchased service expenses were payments for services rendered by various vendors, as follows:

Professional and Technical Services	\$27,418
Property Services	69,307
Travel Mileage/Meeting Expense	2,331
Communications	15,129
Contracted Craft or Trade Services	<u>43,908</u>
Total Purchased Services	<u>\$158,093</u>

**QUEST ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

14. 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 School. As part of this agreement, the School 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. The total contract payment of \$12,756 was paid in full during the year.

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 Lucas County ESC or any other Community School's funds;
- Maintain all books and accounts of the Academy;
- Maintain all financial records of all state funds of the Academy and follow State Auditor procedures for receiving and expending state funds;
- 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 Lucas County ESC are invested, but the Treasurer shall not commingle the funds with any of Lucas County ESC 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.

15. RELATED PARTIES

The Academy committed to the purchase of a copier under a capital lease in the name of Philippian Missionary Baptist Church. The Philippian Missionary Baptist Church is also leasing a copier. The two copiers were leased under one legal agreement to obtain a better price for each copier. The Executive Administrator (Superintendent) for Quest Academy is also the minister of the Philippian Missionary Baptist Church. During the year ended 2004, the school leased classroom space from the church and paid maintenance cost with the lease of this space. (See notes 11 and 12)

16. CONTINGENCIES

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 operating funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements included herein or on the overall financial position of the Academy at June 30, 2004.

**QUEST ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

16. CONTINGENCIES (Continued)

B. Pending Litigation

A suit was filed in Franklin County common Pleas Court on May 14, 2001 alleging Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. On April 21, 2003 the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard on November 18th, 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.

C. School Funding

The Ohio Department of Education conducts reviews enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. ODE has not yet conducted a review of the Academy's 2004 student enrollment data and FTE calculations. For the year ended 2004, the Academy does not anticipate revenue adjustments based on the results of any such review.

17. STATE SCHOOL FUNDING DECISION

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

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

18. SUBSEQUENT EVENTS

Effective November 29, 2004, the contract with the Ohio State Board of Education (the Sponsor) was assigned to Lucas County Educational Service Center. 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.

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Auditor of State Betty Montgomery

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

Quest Academy Community School
Allen County
190 East Eighth Street
Lima, Ohio 45804

To the Governing Board:

We have audited the financial statements of the business type activities of Quest Academy Community School (the Academy) as of and for the year ended June 30, 2004, and have issued our report thereon dated March 23, 2005, wherein we noted the Academy implemented a new financial reporting model. 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*, issues by the Comptroller General of the United States

Compliance

As part of obtaining 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 grants 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 such an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's, internal control over financial reporting in order to determine our auditing procedures in order 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 the 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. However, we noted other matters over financial reporting, that do not require inclusion in this report, that we have reported to the Academy's management in a separate letter dated March 23, 2005.

Quest Academy Community School
Allen County
Report of Independent Accountants on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

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

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

Betty Montgomery
Auditor of State

March 23, 2005



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

QUEST ACADEMY COMMUNITY SCHOOL

ALLEN 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 31, 2005**