**QUEST ACADEMY COMMUNITY SCHOOL**
**ALLEN COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2003**

Auditor of State
Betty Montgomery

**QUEST ACADEMY COMMUNITY SCHOOL**
**ALLEN COUNTY**

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Auditor of State
Betty Montgomery

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Governors:

We have audited the accompanying balance sheet of the Quest Academy Community School, Allen County, (the Academy), as of June 30, 2003, and the related Statement of Revenues, Expenses, and Changes in Retained Earnings and the Statement of Cash Flows for the year then ended. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Academy, as of June 30, 2003, and the results of its operations and its cash flow for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2003, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Betty Montgomery

**Betty Montgomery**
Auditor of State

November 7, 2003

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**QUEST ACADEMY COMMUNITY SCHOOL**
**ALLEN COUNTY**

**BALANCE SHEET**
**AS OF JUNE 30, 2003**

| | |
|---|---|
| **Assets** | |
| **Current Assets** | |
| Cash and Cash Equivalents with Fiscal Agent | $ 128,051 |
| Accounts Receivable | 89 |
| Intergovernmental Receivables | 67,878 |
| Grant Receivable | 25,000 |
| Prepaid Items | 103 |
| Total Current Assets | 221,121 |
| | |
| Non-Current Assets | |
| Fixed Assets (Net of Accumulated Depreciation) | 41,406 |
| Total Assets | $ 262,527 |
| | |
| **Liabilities and Fund Equity** | |
| **Current Liabilities** | |
| Accounts Payable | 4,958 |
| Accrued Wages Payable | 1,231 |
| Compensated Absences Payable | 2,898 |
| Intergovernmental Payable | 7,970 |
| Due to Students | 3,079 |
| Capital Leases Payable | 2,769 |
| Total Current Liabilities | 22,905 |
| | |
| **Long-Term Liabilities** | |
| Capital Leases Payable | 4,782 |
| Total Liabilities | 27,687 |
| | |
| **Fund Equity** | |
| Retained Earnings | |
| Unreserved | 234,840 |
| **Total Liabilities and Fund Equity** | $ 262,527 |

*The accompanying notes are an integral part of the financial statements.*

**QUEST ACADEMY COMMUNITY SCHOOL**
**ALLEN COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

| | |
|---|---|
| **Operating Revenues** | |
| Foundation Payments | $ 420,323 |
| Disadvantaged Public Impact Aid | 74,169 |
| Special Education | 8,217 |
| Food Services | 5,225 |
| Miscellaneous Operating Revenue | 664 |
| Total Operating Revenues | 508,598 |
| **Operating Expenses** | |
| Salaries | 385,187 |
| Fringe Benefits | 78,074 |
| Purchased Services | 149,021 |
| Materials and Supplies | 79,073 |
| Depreciation | 11,751 |
| Other Operating Expenses | 19,632 |
| Total Operating Expenses | 722,738 |
| Operating Loss | (214,140) |
| **Non-Operating Revenues and (Expenses)** | |
| Grants - Federal | 246,902 |
| Grants - State | 5,969 |
| Interest Income | 2,051 |
| Contributions and Donations | 23 |
| Interest and Fiscal Charges | (1,004) |
| Total Non-Operating Revenues (Expenses) | 253,941 |
| Net Income | 39,801 |
| Retained Earnings at Beginning of Year | 195,039 |
| **Retained Earnings at End of Year** | $ 234,840 |

*The accompanying notes are an integral part of the financial statements.*

**QUEST ACADEMY COMMUNITY SCHOOL**
**ALLEN COUNTY**

**STATEMENT OF CASH FLOWS**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

| | |
|---|---|
| **Increase (Decrease) in Cash and Cash Equivalents** | |
| **Cash Flows from Operating Activities** | |
| Cash received from State of Ohio | $ 502,709 |
| Cash received from Food Services | 5,225 |
| Cash received from Other Sources | 6,463 |
| Cash Payments to Suppliers for Goods and Services | (249,644) |
| Cash Payments to Employees for Services | (385,051) |
| Cash Payments for Employee Benefits | (89,827) |
| Net Cash Provided by (Used for) Operating Activities | (210,125) |
| **Cash Flows from Noncapital Financing Activities** | |
| Operating Grants Received - Federal | 230,512 |
| Operating Grants Received - State | 5,971 |
| Contributions and Donations | 25,023 |
| Principal Payments | (2,476) |
| Interest Payments | (1,004) |
| Net Cash Provided by Noncapital Financing Activities | 258,026 |
| **Cash Flows from Capital and Related Financing Activities** | |
| Payments for Capital Acquisitions | (42,423) |
| **Cash Flows from Investing Activities** | |
| Cash Received from Interest on Investments | 2,051 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 7,529 |
| Cash and Cash Equivalents at Beginning of Year | 120,522 |
| **Cash and Cash Equivalents at End of Year** | $ 128,051 |
| **Reconciliation of Operating Income (Loss) to Net** Cash Provided by (Used for) Operating Activities | |
| Operating Loss | $ (214,140) |
| **Adjustments to Reconcile Operating Income (Loss) to Net** Cash Provided by (Used for) Operating Activities | |
| Depreciation | 11,751 |
| Changes in Assets and Liabilities: | |
| (Increase)/Decrease in Accounts Receivable | 522 |
| (Increase)/Decrease in Prepaid Items | 381 |
| Increase/(Decrease) in Accounts Payable | 1,694 |
| Increase/(Decrease) in Accrued Wages Payable | 180 |
| Increase/(Decrease) in Compensated Absences Payable | (44) |
| Increase/(Decrease) in Due to Students | 1,756 |
| Increase/(Decrease) in Intergovernmental Payable | (12,225) |
| Total Adjustments | 4,015 |
| **Net Cash Provided by Operating Activities** | $ (210,125) |

*The accompanying notes are an integral part of the financial statements.*

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## 1. DESCRIPTION OF THE 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 will address 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 fourth for the year ended 2003, and will be adding grade five during 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 years. 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 six-member Governing Board. The Governing Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Governing Board controls the Academy’s one instructional/support facility staffed by ten non-certified and eleven certificated full time teaching personnel who provide services to 93 students.

The Academy has entered into a service agreement with the Lucas County Educational Service Center (ESC) 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 as applied to a governmental nonprofit organization. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The Academy also applies Financial Accounting Standards Board statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the Academy's accounting policies are described below:

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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 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/Basis of Accounting

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

### C. Budgetary Process

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

### D. Cash

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

### E. Estimates

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

### F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### G. Fixed Assets and Depreciation

Fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded their fair market value on the date received. The Academy maintains a capitalization policy of five hundred dollars for tangible assets and fifteen thousand dollars for improvements to fixed 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.

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.

### H. Accrued Liabilities

The Academy has recognized certain expenses due but unpaid as of June 30, 2003. These expenses are reported as accrued liabilities in the accompanying financial statements, which include the STRS employer's share of $3,665, an SERS employer's share credit of $7,100, SERS surcharge of $8,622, Medicare of $20, and worker's compensation of $2,763.

These have been reported as intergovernmental payables.

### I. 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 1 1/4 days per month. Sick leave may accumulate to equal the number of days contracted, plus sixty. Sick leave is not paid upon termination.

### J. Intergovernmental Revenues

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

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

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use if 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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Academy participates in various federal and state programs through the Ohio Department of Education. The programs the Academy participated in during fiscal year 2003, 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 2003 school year totaled $755,580.

## 3. DEPOSITS

At June 30, 2003, the carrying amount of the Academy's deposits was $47,695 and the bank balance was $51,175. The bank balance was covered by federal depository insurance.

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 totaling $80,356 (reported amount and fair value), which are maintained in STAR Ohio, which is not categorized because they are not evidenced by securities that exist in physical or book entry form.

## 4. RECEIVABLES

Receivables at June 30, 2003, consisted of accounts receivable and intergovernmental (e.g. state and federal grants) receivables. Accounts receivables consist of other miscellaneous types of receipts and are collectible in full due to the unique nature of the 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.

## 5. FIXED ASSETS

The following is a summary of changes in the fixed assets during the fiscal year:

| | Balance 7/01/02 | Additions | Retirements | Balance 6/30/03 |
|---|---|---|---|---|
| Furniture and Equipment | $ 16,334 | $42,423 | $ 0 | $ 58,757 |
| Less Accumulated Depreciation | (5,600) | (11,751) | 0 | (17,351) |
| Net Fixed Assets | $ 10,734 | $30,672 | $ 0 | $ 41,406 |

## 6. RISK MANAGEMENT

### A. Property and Liability

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

## 6. RISK MANAGEMENT (Continued)

For the fiscal year ended June 30, 2003, the Academy contracted with Zurich 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 |
| Employer's 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.

### B. Worker's Compensation

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

### 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.

## 7. DEFINED BENEFIT PENSION PLANS

### A. State Teachers Retirement System

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

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on member contributions and earned interest matched by STRS funds multiplied by an actuarially determined annuity factor. The DCP allows members to place all of their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age fifty and termination of employment. The CP offers features of both the DBP and DCP. In the CP, member contributions are invested by the member and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP.

## 7. DEFINED BENEFIT PENSION PLANS (Continued)

Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balance from the existing DBP into the DCP or CP. This option expired on December 31, 2001.

A DBP or CP member with five or more years of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DCP 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.

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salary and the Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. 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. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contribution for pension obligations for the fiscal years ended June 30, 2003, 2002, and 2001, was $39,462, $25,617, and $13,169, respectively; 91 percent has been contributed for fiscal year 2003 and 100 percent has been contributed for fiscal years 2002 and 2001.

### B. School Employees Retirement System

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9 percent of their annual covered salary and the Academy was required to contribute an actuarially determined rate. The rate for fiscal year 2003 was 14 percent of annual covered payroll; 8.17 percent was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent of the annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The Academy's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001, were $6,659, $4,712, and $3,481, respectively.

## 8. POST-EMPLOYMENT BENEFITS

The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired classified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums.

**8. POST-EMPLOYMENT BENEFITS (Continued)**

Benefit provisions and the obligation to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2003, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Academy, this amount was $3,036.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was $3,011 million at June 30, 2002 (the latest information available). For the fiscal year ended June 30, 2002, net health care costs paid by STRS were $354,697,000, and STRS had 105,300 eligible benefit recipients.

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

For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay was established at $14,500. For the Academy, the amount to fund health care benefits, including the surcharge, was $13,373 for fiscal year 2003.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2002 (the latest information available), were $182,946,777, and the target level was $274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of $335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**9. OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and personal leave are derived from policies and procedures approved by the Governing Board. No members of the staff had vacation leave earned in the current fiscal 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.

**B. Employee Medical and Life Benefits**

The Academy has contracted through Anthem Blue Cross to provide employee medical and life insurance to its full time employees who work 20 or more hours per week. The Academy pays the full amount of the monthly premiums for all selected coverage (medical and/or life). For those employees electing to not participate in the offered benefits, a monthly incentive is paid.

## 10. CAPITALIZED LEASE - LESSEE DISCLOSURE

During fiscal year 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.

The capital lease has a term of 63 months and is payable monthly. The capital lease principal payable at the time of inception totaled $13,744. 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, 2003:

| | |
|---|---|
| Fiscal Year Ending | |
| 2004 | 3,480 |
| 2005 | 3,480 |
| 2006 | 1,740 |
| Total Minimum Lease Payments | 8,700 |
| Less: Amount representing Interest | (1,149) |
| Present Value of Minimum Lease Payments | $ 7,551 |

The Academy had committed to the purchase of a copier with the Philippian 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.

## 11. OPERATING LEASES

The Academy entered into a lease for classroom facilities with the Philippian 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 totaled $3,216 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 Risograph operating leases as of June 30, 2003:

| Year Ending | Risograph |
|---|---|
| 2004 | $3,216 |
| 2005 | 1,072 |
| Total Minimum Lease Payments | $4,,288 |

## 12. PRIVATE GRANTS

The Ford Motor Company Fund pledged $100,000 to the Academy for its operating expenses in fiscal years 2001 to 2004. During fiscal year 2003, the Academy received $25,000 and will be receiving one more payment of $25,000. In accordance with GASB No. 33 "*Accounting and Financial Reporting for Nonexchange Transactions*" the grant is a voluntary nonexchange transaction for reporting purposes.

## 13. PURCHASED SERVICES

For the period July 1, 2002 through June 30, 2003, purchased service expenses were payments for services rendered by various vendors, as follows:

| | |
|---|---:|
| Professional and Technical Services | $34,915 |
| Property Services | 66,617 |
| Travel Mileage/Meeting Expense | 3,028 |
| Communications | 7,017 |
| Utilities | 961 |
| Contracted Craft or Trade Services | 35,727 |
| Transportation Services | 756 |
| Total Purchased Services | $149,021 |

## 14. FISCAL AGENT

The service agreement states the Treasurer of the Lucas County Educational Service Center shall serve as the Chief Financial Officer of Quest Academy Community School. As part of this agreement, the Academy shall compensate the Lucas County Educational Service Center two percent (2%) of the per pupil allotments paid to the Academy from the State of Ohio. The total contract payment of $8,207 was paid during the year in full.

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

A. Maintain custody of all funds received by the Academy in segregated accounts separate from Lucas County ESC or any other Community School's funds;

B. Maintain all books and accounts of the Academy;

C. Maintain all financial records of all state funds of the Academy and follow State Auditor procedures for receiving and expending state funds;

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

E. 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

F. 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 lease 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 fiscal year 2003, the school started leasing classroom space from the church and paying maintenance costs associated with the lease of this space.

## 16. CONTINGENCIES

### A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the school. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2003.

### B. Pending Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e. Charter) Schools program violates the State Constitution and State Law. The effect of this suit, if any, on the school is not presently determinable.

### C. State Foundation Funding

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the school. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusions of this review could result in state funding being adjusted. This information was not available as of the date of this report. For the fiscal year 2003, the Academy does not anticipate any material adjustments to state funding.

## 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.

**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 Board of Governors:

We have audited the financial statements of Quest Academy Community School, Allen County, (the Academy), as of and for the year ended June 30, 2003, and have issued our report thereon dated November 7, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported 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 for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Academy in a separate letter dated November 7, 2003.

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

**Betty Montgomery**
Auditor of State

November 7, 2003

Auditor of State
Betty Montgomery

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## 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**
**DECEMBER 2, 2003**