QUEST ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2001

JIM PETRO
AUDITOR OF STATE
STATE OF OHIO

QUEST ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY

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REPORT OF INDEPENDENT ACCOUNTANTS

Quest Academy Community School
Allen County
1300 South Sugar 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, 2001, 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 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, 2001, and the results of its operations and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2002, 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.

Jim Petro
Auditor of State

February 12, 2002

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QUEST ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY

BALANCE SHEET
AS OF JUNE 30, 2001

Assets	
Current Assets	
Cash and Cash Equivalents with Fiscal Agent	$ 8,415
Receivables	
Accounts	19,492
Intergovernmental	40,681
Prepaid Items	621
Total Current Assets	69,209
Noncurrent Assets	
Fixed Assets (Net of Accumulated Depreciation)	13,806
Total Assets	$ 83,015
Liabilities and Fund Equity	
Current Liabilities	
Accounts Payable	$ 5,211
Compensated Absences Payable	2,395
Intergovernmental Payable	8,342
Other Payables	128
Capital Leases Payable	2,386
Total Current Liabilities	18,462
Long-Term Liabilities	
Capital Leases Payable	10,027
Total Liabilities	28,489
Fund Equity	
Retained Earnings	
Unreserved	54,526
Total Liabilities and Fund Equity	$ 83,015

The accompanying notes to the financial statements 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 YEAR ENDED JUNE 30, 2001

Operating Revenues	
Foundation Payments	$247,941
Disadvantaged Public Impact Aid	88,341
Food Services	4,583
Other Operating Revenue	2,126
Total Operating Revenues	342,991
Operating Expenses	
Salaries	245,644
Fringe Benefits	43,116
Purchased Services	84,743
Materials and Supplies	87,827
Depreciation	1,749
Other Operating Expenses	6,105
Total Operating Expenses	469,184
Operating Loss	(126,193)
Non-Operating Revenues/(Expenses)	
Grants - Federal	62,720
Grants - State	8,609
Interest Income	23
Contributions and Donations	21,909
Interest and Fiscal Charges	(1,106)
Total Non-Operating Revenues (Expenses)	92,155
Net Loss	(34,038)
Retained Earnings at Beginning of Year	88,564
Retained Earnings at End of Year	$54,526

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

QUEST ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2001

Decrease in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from State of Ohio	$336,282
Cash Received from Food Services	4,583
Cash Received from Other Sources	2,079
Cash Payments to Suppliers for Goods and Services	(171,789)
Cash Payments to Employees for Services	(243,249)
Cash Payments for Employee Benefits	(37,070)
Net Cash Used for Operating Activities	(109,164)
Cash Flows from Noncapital Financing Activities	
Grants Received - Federal	13,986
Grants Received - State	16,662
Contributions and Donations	2,475
Net Cash Provided by Noncapital Financing Activities	33,123
Cash Flows from Capital and Related Financing Activities	
Principal Payments	(1,331)
Interest Payments	(989)
Payments for Capital Acquisitions	(696)
Net Cash Used for Capital and Related Financing Activities	(3,016)
Cash Flows from Investing Activities	
Cash Received from Interest on Investments	23
Net Decrease in Cash and Cash Equivalents	(79,034)
Cash and Cash Equivalents at Beginning of Year	87,449
Cash and Cash Equivalents at End of Year	8,415
Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
Operating Loss	(126,193)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities	
Depreciation	1,749
Changes in Assets and Liabilities	
Increase in Accounts Receivable	(58)
Increase in Prepaid Items	(621)
Increase in Accounts Payable	5,211
Increase in Compensated Absences Payable	2,395
Increase in Due to Students	11
Increase in Intergovernmental Payable	8,342
Total Adjustments	17,029
Net Cash Provided by Operating Activities	($109,164)

Noncash Investing, Capital, and Financing Activities

Quest Academy financed the purchase of a Konica Copier through a capital lease arrangement
The equipment was valued at $13,744 at the time of purchase.

The accompanying notes to the financial statements are an integral part of the financial statements

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1. DESCRIPTION OF THE ACADEMY 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 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 transiency 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 second in fiscal year 2001, and intends to add grades 3, 4, and 5 in 2002, 2003 and 2004, respectively. 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 2000-2001 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 five non-certified and six certificated full time teaching personnel who provide services to 68 students.

The Academy has entered into a service agreement with the Educational Service Center (ESC), Lucas County, to provide certain financial and accounting services and the Treasurer of the ESC serves as the Chief Financial Officer of the Academy, (see Note 15).

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, 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 is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. 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 and Cash Equivalents

All monies received by the Academy are accounted for by the Academy's fiscal agent, the ESC (See Note 1). All cash received by the fiscal agent is maintained in separate bank accounts in the Academy's name. Monies for the Academy are maintained in these accounts or temporarily used to purchase short-term investments.

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

E. Estimates

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2001, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

G. Fixed Assets and Depreciation

Fixed assets are capitalized at cost and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value 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 School has recognized certain expenses, which are due but unpaid as of June 30, 2001, which are reported as accrued liabilities in the accompanying financial statements, which include the employer's share of the retirement contribution ($5,267), and workers' compensation ($779).

The Ohio Department of Education conducts reviews of 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. This review resulted in an adjustments to the state funding for fiscal year 2001, in the amount of ($2,296).

These have been reported as intergovernmental payables.

I. Compensated Absences

Full-time Academy staff earn 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Intergovernmental Revenues

The Academy currently participates in the State Foundation 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. Grant 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 is first permitted; matching requirements for 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.

Amounts awarded under these programs for the 2001 school year totaled $407,611.

The Academy also participated in the Charter School Grant Program through the Ohio Department of Education. Under this program, the Academy was awarded $50,000 for the planning phase of the school and an additional $50,000 charter school federal sub-grant. Revenues from these programs were recognized as non-operating revenue in the prior year and represent the carryover balances.

3. 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, 2001, the carrying amount of the Academy's deposits was $8,415 and the bank balance was $35,396. The bank balance was covered by federal depository insurance.

4. RECEIVABLES

Receivables at June 30, 2001, 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.

4. RECEIVABLES

The principal items of intergovernmental receivables follow:

Receivable	Amount
Title I	$32,876
Title II	62
Title IV	455
Title VI	3,707
Title VI-R	2,915
National School Lunch	666
Total	$40,681

5. FIXED ASSETS

A summary of fixed assets at June 30, 2001, follows:

Furniture & Equipment	$15,834
Less:	
Accumulated Depreciation	(2,028)
Net Fixed Assets	$13,806

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. For fiscal year 2001, the Academy contracted with Indiana Insurance Company for its insurance coverage as follows:

Commercial General Liability	$1,000,000
Fire Damage	100,000
Medical Expense	5,000
Personal Injury	1,000,000
General Aggregate	2,000,000
Automobile Liability	1,000,000
Excess Liability	1,000,000
Workers Compensation and Employers' Liability	1,000,000

The Academy owns no real estate, but leases a facility located at 1300 South Sugar Street, Lima, Ohio.

6. RISK MANAGEMENT (Continued)

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. (See Note 9B.)

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Academy contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer 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, 45 North Fourth Street, Columbus, Ohio 43215-3634 or by calling (614) 222-5853.

Plan members are required to contribute 9 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; 4.2 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, 2001, was $3,064; 86 percent has been contributed for fiscal year 2001. The unpaid contribution for fiscal year 2001, in the amount of $429, is recorded as a liability.

B. 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 basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code.

STRS issues a public available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614)-227-4090.

7. DEFINED BENEFIT PENSION PLANS (Continued)

Plan members are required to contribute 9.3 percent of their annual covered salary and the Academy is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The Academy's required contributions for pension obligations to STRS for the year ended June 30, 2001, was $14,823; 88.86 percent has been contributed for fiscal year 2001. The unpaid contribution for fiscal year 2001, in the amount of $1,651, is recorded as a liability.

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 non-certificated employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare premiums. 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 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 the coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll.

For fiscal year June 30, 2001, STRS allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the Academy, this amount equaled $7,020 for the fiscal year ended June 30, 2001.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was $3,419 million at June 30, 2000 (the latest information available). For the fiscal year ended June 30, 2000, net health care costs paid by STRS were $283,137,000 and STRS had 99,011 eligible benefit recipients.

For SERS, 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 fiscal period, employer contributions to fund health care benefits were 9.8 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 2001, the minimum pay had been established at $12,400.

For the Academy, the amount to fund health care benefits, including surcharge, was $8,552 for the fiscal year ended June 30, 2001.

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. Two 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. Both the unused vacation and 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 was party to 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 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 .015 per copy for copies in excess of 3000 on each copier.

The following is a schedule of the future minimum lease payments required under the capital lease, for the Academy's copier, and the present value of the minimum lease payments as of June 30, 2001:

Fiscal Year Ending	
2002	$ 3,770
2003	3,480
2004	3,480
2005	3,480
2006	1,740
Total Minimum Lease Payments	15,950
Less: Amount representing Interest	(3,537)
Present Value of Minimum Lease Payments	$ 12,413

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.

11. OPERATING LEASES

A. The Academy entered into a lease agreement with the Lima City School District Board of Education for use of the school property. The term of the lease commenced August 1, 2000 and terminates July 31, 2001. The lease contains two (2) renewal terms of one (1) year each exercisable by the lessee giving written notification to lessor of intention no later than thirty days before the end of the initial term or any extensions. The rental fee was $1. The Academy is responsible for the maintenance, utilities, repairs, remodeling, redecorating, inspections, insurance, and damages to the premises.

B. The Academy was a party to 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 $3,216 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 operating lease as of June 30, 2001:

Fiscal Year Ending	Risograph
2002	$ 3,216
2003	3,216
2004	3,216
2005	1,072
Total Minimum Lease Payments	$10,720

12. PRIVATE GRANTS

The Academy received $19,434, in private grants for the purpose of supplementing an after-school program.

13. PURCHASED SERVICES

For the period July 1, 2000 through June 30, 2001, purchased service expenses were payments for services rendered by various vendors, as follows:

Professional and Technical Services	$ 24,737
Property Services	13,373
Travel Mileage/Meeting Expense	706
Communications	9,764
Utilities	34,137
Contracted Craft or Trade Services	2,026
Total Purchased Services	$84,743

14. RELATED PARTIES

Quest Academy committed to the purchase of a copier under a capital lease that was leased in the name of Philippian Missionary Baptist Church. Philippine 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 church.

15. FISCAL AGENT

The service agreement states the Treasurer of the Lucas County Educational Service Center shall serve as the Chief Financial Officer of Pro Hope, Inc. d.b.a. Quest Academy. 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 $2,462 was paid during the year.

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.

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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2001.

16. CONTINGENCIES (Continued)

B. Litigation

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

17. STATE SCHOOL FUNDING DECISION

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.

- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order. In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of February 12, 2002, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts.

Further, the State of Ohio, in a motion filed September 17, 2001, asked the court to reconsider and clarify parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirements that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such consideration.

As of the date of these financial statements, the District is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.

18. SUBSEQUENT EVENTS

A. Related Party Transaction

In July 2001, the Academy experienced a temporary cash flow problem while awaiting revenue from the State of Ohio. The Executive Administrator (Superintendent), advanced $2,300 to the Academy to cover the first payroll period of July. This advance was repaid on July 30, 2001.

B. Debt

On October 1, 2001, Pro-Hope, Inc., dba Quest Academy entered into a line-of-credit agreement with SKY Bank for a period of one year in the amount of $50,000. The specific purpose of the line-of-credit was to provide working capital in the event of timing gaps experienced in awaiting state funding. As of the date of this report, there have been no draws against the line-of-credit.

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STATE OF OHIO
OFFICE OF THE AUDITOR

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

Quest Academy Community School
Allen County
1300 South Sugar Street
Lima, Ohio 45804

To the Board of Governors:

We have audited the financial statements of the Quest Academy Community School, Allen County, (the Academy) as of and for the year ended June 30, 2001, and have issued our report thereon dated February 12, 2002. 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*. However, we noted a certain immaterial instance of noncompliance that we have reported to management of the Academy in a separate letter dated February 12, 2002.

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 February 12, 2002.

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

Jim Petro
Auditor of State

February 12, 2002

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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
APRIL 16, 2002