QUEST ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY

REGULAR AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Mary Taylor, CPA
Auditor of State

QUEST ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY

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Mary Taylor, CPA
Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Governing Board:

We have audited the basic financial statements of Quest Academy Community School, Allen County, (the Academy), as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Academy, as of June 30, 2007, and the changes in financial position and 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 January 2, 2008 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 accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 2, 2008

One First National Plaza / 130 W. Second St. / Suite 2040 / Dayton, OH 45402
Telephone: (937) 285-6677 (800) 443-9274 Fax: (937) 285-6688
www.auditor.state.oh.us

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The discussion and analysis of Quest Academy Community School's (the Academy) financial performance provides an overall view of the Academy's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

FINANCIAL HIGHLIGHTS

- Total Assets were $284,883.
- Total Liabilities $94,225.
- Total Net Assets $190,658.

USING THIS ANNUAL FINANCIAL REPORT

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

Statement of Net Assets

The Statement of Net Assets answers the question, "How did we do financially during 2007?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is 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.

Table 1 provides a summary of the Academy's net assets for fiscal year 2007 compared to fiscal year 2006:

Table 1
Net Assets

	2007	2006
Assets		
Current Assets	$271,966	$257,639
Capital Assets, Net	12,917	28,921
Total Assets	284,883	286,560
Liabilities		
Current Liabilities	86,353	93,649
Noncurrent Liabilities	7,872	12,857
Total Liabilities	94,225	106,506
Net Assets		
Invested in Capital Assets	60	11,506
Restricted	133,680	137,173
Unrestricted	56,918	31,375
Total Net Assets	$190,658	$180,054

Total assets decreased by $1,677, which represents a .6 percent decrease from fiscal year 2006. While cash and cash equivalents increased by $21,325, intergovernmental receivables decreased by $6,690, and prepaid items decreased $308. Total liabilities decreased by $12,281, which represents an 11.53 percent decrease from fiscal year 2006. The Academy's net assets increased by $10,604, which represents a 70.6 percent decrease from fiscal year 2006.

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.

Table 2
Change in Net Assets

	2007	2006
Operating Revenue		
Foundation Payments	$757,720	$602,629
Poverty-Based Assistance		102,668
Special Education	7,144	8,690
Food Services	5,260	5,132
Other Operating Revenues	872	8,497
Total Operating Revenues	770,996	727,616
Operating Expenses		
Salaries	495,803	488,068
Fringe Benefits	123,124	116,201
Purchased Services	245,701	176,770
Materials and Supplies	36,142	57,406
Depreciation Expense	18,267	15,686
Other Operating Expense	5,585	17,050
Total Operating Expenses	924,622	871,181
Non-Operating Revenues and (Expenses)		
Operating Grants - Federal	139,730	154,726
Operating Grants - State	10,294	6,038
Interest	588	526
Contributions and Donations	15,000	20,089
Interest and Fiscal Charges	(1,382)	(1,773)
Total Non-Operating Revenues and (Expenses)	164,230	179,606
Increase/(Decrease) in Net Assets	$10,604	$36,041

State Foundation Basic Aid and Special Education, as a whole, are the primary support for the Academy, representing 99.21 percent of the operating revenue. Salaries and Fringe Benefits comprise 66.9 percent of operating expenses.

The Academy had total revenues of $936,608, and total expenses of $926,004. The change in net assets for the year was an increase of $10,604. The increase is due to the increase in foundation basic aid this year.

CAPITAL ASSETS

At the end of fiscal year 2007, the Academy had $12,917 (net of $62,576 in accumulated depreciation) invested in furniture, fixtures, and equipment and leasehold improvements. Table 3 shows fiscal year 2007 balances compared to fiscal year 2006:

Table 3
Capital Assets at June 30
(Net of Depreciation)

	2007	2006
Furniture, Fixtures, and Equipment	$10,179	$25,955
Leasehold Improvements	2,738	2,966
Totals	$12,917	$28,921

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

DEBT

At fiscal year ended June 30, 2007 the Academy had $12,857 in outstanding debt, of which $4,985 is due within one year. Table 4 summarizes the debt outstanding.

Table 4
Outstanding Debt, at Year End

	2007	2006
Capital Leases Payable	$12,857	$17,415

For more information on outstanding debt, see Note 11 to the basic financial statements.

CURRENT FINANCIAL ISSUES

The utilization of the Lucas County Educational Service Center as the Academy's fiscal agent greatly improves its internal control structure and the quality of its financial records. During the 2006-2007 school year, there were approximately 118 students enrolled in the Academy. The Academy receives its finances mostly from state aid. Per pupil aid for fiscal year 2007 amounted to $5,403 per student.

CONTACTING THE ACADEMY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizen's with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional information contact Mr. Martin Stephens, Treasurer of Quest Academy Community School, 190 E. 8th Street, Lima, Ohio 45804 or e-mail at mstephe2@ford.com.

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QUEST ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2007

Assets:	
Current Assets:	
Cash and Cash Equivalents	$133,171
Receivables:	
Intergovernmental	131,432
Prepaid Items	7,363
Total Current Assets	271,966
Non-Current Assets:	
Capital Assets, Net of Accumulated Depreciation	12,917
Total Non-Current Assets	12,917
Total Assets	284,883
Liabilities:	
Current Liabilities:	
Accounts Payable	4,650
Accrued Wages	48,476
Compensated Absences Payable	2,298
Due to Students	2,401
Intergovernmental Payable	23,543
Capital Leases Payable	4,985
Total Current Liabilities	86,353
Noncurrent Liabilities:	
Capital Leases Payable	7,872
Total Liabilities	94,225
Net Assets:	
Invested in Capital Assets, Net of Related Debt	60
Restricted	133,680
Unrestricted	56,918
Total Net Assets	$190,658

See accompanying notes to the basic financial statements.

QUEST ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Operating Revenues:	
Foundation Payments	$757,720
Special Education	7,144
Food Services	5,260
Extracurricular Activities	626
Other Operating Revenues	246
Total Operating Revenues	770,996
Operating Expenses:	
Salaries	495,803
Fringe Benefits	123,124
Purchased Services	245,701
Materials and Supplies	36,142
Depreciation	18,267
Other Operating Expenses	5,585
Total Operating Expenses	924,622
Operating Loss	(153,626)
Non-Operating Revenues and Expenses:	
Operating Grants - Federal	139,730
Operating Grants - State	10,294
Contributions and Donations	15,000
Interest Revenue	588
Interest and Fiscal Charges	(1,382)
Total Non-Operating Revenues and (Expenses)	164,230
Change in Net Assets	10,604
Net Assets at Beginning of Year	180,054
Net Assets at End of Year	$190,658

See accompanying notes to the basic financial statements.

QUEST ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities:	
Cash Received from State of Ohio	$764,864
Cash Received from Other Operating Sources	8,169
Cash Payments to Suppliers for Goods and Services	(288,467)
Cash Payments to Employees for Services	(502,245)
Cash Payments for Employee Benefits	(125,095)
Net Cash Used for Operating Activities	(142,774)
Cash Flows from Noncapital Financing Activities:	
Cash Received from Operating Grants - Federal	146,420
Cash Received from Operating Grants - State	10,294
Cash Received Contributions and Donations	15,000
Net Cash Provided by Noncapital Financing Activities	171,714
Cash Flows from Capital and Related Financing Activities:	
Cash Payments for Capital Acquisitions	(2,263)
Cash Payments for Principal Payments	(4,558)
Cash Payments for Interest Payments	(1,382)
Net Cash Used for Capital and Related Financing Activities	(8,203)
Cash Flows from Investing Activities:	
Cash Received from Interest on Investments	588
Net Decrease in Cash and Cash Equivalents	21,325
Cash and Cash Equivalents at Beginning of Year	111,846
Cash and Cash Equivalents at End of Year	$133,171
Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating Loss	($153,626)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation	18,267
Changes in Assets and Liabilities:	
Decrease in Prepaid Items	308
Increase in Accounts Payable	1,591
Decrease in Accrued Wages Payable	(7,166)
Decrease in Intergovernmental Payable	(2,996)
Increase in Due to Students	124
Increase in Compensated Absences Payable	724
Total Adjustments	10,852
Net Cash Used for Operating Activities	($142,774)

See accompanying notes to the basic 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 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 fiscal year ended 2007.

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 Lucas County Educational Service Center (the Sponsor) for a period of five years commencing in the 2006 academic 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 seven-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 10 non-certified and 15 certificated full time teaching personnel who provide services to 118 students.

The Academy has entered into a service agreement with the Sponsor to provide certain financial and accounting services and the Treasurer of the Sponsor serves as the Chief Financial Officer of the Academy. (See Note 13)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

The Academy's basic financial statements consist of a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. The Academy uses Enterprise accounting to track and report on its financial activities. Enterprise fund reporting focuses on the determination of the change in net assets, financial position, and cash flows.

B. Measurement Focus

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

C. Basis of Accounting

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

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

Expenses are recognized at the time they are incurred.

D. Budgetary Process

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 contract between the Academy and 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.

E. Cash and Cash Equivalents

All monies received by the Academy are accounted for by the Academy's fiscal agent, the Lucas County Educational Service Center. All cash received by the fiscal agent is maintained in separate bank accounts in the Academy's name. Monies for the Academy are maintained in these accounts or temporarily used to purchase short-term investments.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Intergovernmental Revenues

The Academy currently participates in the State Foundation Basic Aid Program and the State Special Education Program. Revenues from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements are met.

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

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

The Academy participates in various federal and state programs through the Ohio Department of Education. The programs the Academy participated in during fiscal year 2007 include: EMIS, ONE NET, SCHOOL NET, IDEA Part B, Title I, Title V, Title IV, ECSE IDEA, Title IIA, Title IID, and the School Lunch and Breakfast Programs.

Amounts received under the above named programs during fiscal year 2007 totaled $156,581.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2007, 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.

H. Capital Assets and Depreciation

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 two thousand dollars 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. All reported capital assets are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

Description	Estimated Lives
Furniture, Fixtures and Equipment	5
Leasehold Improvements	15

I. Accrued Liabilities

The Academy has recognized certain expenses due but unpaid as of June 30, 2007. These expenses are reported as accrued liabilities in the accompanying financial statements, which includes STRS and SERS employer's share of $22,270, Medicare of $703 and worker's compensation of $570.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. 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. One member of the staff had vacation leave earned in the current year that had not been used at year-end.

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 dollars per unused day. Ten 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.

Employees earn sick leave at the rate of one and one-fourth 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 the time of retirement. Currently the Academy does not have any employees eligible to receive severance pay.

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets.

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditor, grantor, or laws or regulations of other governments. The Academy applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

L. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the Academy, these revenues are primarily foundation payments from the State. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the Academy. Revenues and expenses not meeting this definition are reported as non-operating.

M. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

3. DEPOSITS AND INVESTMENTS

State statues require the classification of the monies held by the Academy into three categories:

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the Academy Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive monies are public deposits that the Board has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including but not limited to passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim monies must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings accounts including but not limited to passbook accounts.

Interim monies are to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

4. Bonds and other obligations of the State of Ohio, or Ohio local governments;

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

6. The State Treasurer's investment pool (STAR Ohio);

Investments in stripped principal or interest obligations reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Academy, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

3. DEPOSITS AND INVESTMENTS (Continued)

Deposits - Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of the Academy's cash and deposits is provided by the Federal Deposit Insurance Corporation as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize all public deposits.

At fiscal year-end, the carrying amount of the Academy's deposits was $133,171. $100,000 of the Academy's deposits was insured by Federal depository insurance.

Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures,* as of June 30, 2007, $33,171 of the Academy's bank balance of $133,171 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Academy's name.

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

Investments - The Academy had no investments.

4. RECEIVABLES

Receivables at June 30, 2007, consisted of intergovernmental receivables. All receivables are considered collectable in full due to the stable condition of State programs, and the current year guarantee of federal funds. A summary of the principal items of receivables follows:

Receivables	Amount
Intergovernmental:	
IDEA-B '07	$34,049
Title I '07	90,008
Title V '07	215
Title VI '07	3,472
ECSE IDEA	382
Title IIA '07	2,932
Title IID '07	374
Total Intergovernmental Receivables	$131,432

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007, was as follows:

	Balance 06/30/06	Additions	Deductions	Balance 06/30/07
Capital Assets:				
Furniture, Fixtures, and Equipment	$69,808	$2,263		$72,071
Leasehold Improvements	3,422			3,422
Total Capital Assets	73,230	2,263	$0	75,493
Less: Accumulated Depreciation				
Furniture, Fixtures, and Equipment	(43,853)	(18,039)		(61,892)
Leasehold Improvements	(456)	(228)		(684)
Total Accumulated Depreciation	(44,309)	(18,267)		(62,576)
Total Capital Assets, Net of Accumulated Depreciation	$28,921	($16,004)	$0	$12,917

6. RISK MANAGEMENT

A. Insurance Coverage

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the fiscal year ended June 30, 2007, the Academy contracted with the Indiana Insurance Company for insurance coverage as follows:

Commercial General Liability	$ 1,000,000
General Aggregate	2,000,000
Automobile Liability	1,000,000
Excess Liability	2,000,000
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, 45804.

Settlements have not exceeded insurance coverage in any of the past three years.

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. Employee 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. The Academy pays the monthly premiums for all selected coverage (medical and life insurance).

7. DEFINED BENEFIT PENSION PLANS

A. School Employee Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. 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 Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

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 Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of 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 a statutory maximum amount, by the SERS' Retirement Board. The Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006 and 2005 were $13,358, $10,431 and $9,686 respectively; 97.54 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

B. State Teachers Retirement System

The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strs.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all 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 50 and termination of employment.

The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, 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 DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. 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 balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

7. DEFINED BENEFIT PENSION PLANS (Continued)

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. 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.

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations 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 contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005 were $54,067, $50,889, and $40,746 respectively; 91.64 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. Contributions to the DC and Combined Plans for fiscal year 2007 were $6,666 made by the Academy and $9,469 made by the plan members.

8. POSTEMPLOYMENT BENEFITS

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

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS Ohio. All 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 Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the Academy, this amount equaled $4,088 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) the balance in the Fund was $3.5 billion. For the year ended June 30, 2006, net health care costs paid by STRS were $282,743,000 and STRS had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

8. POSTEMPLOYMENT BENEFITS (Continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. 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 2007, the minimum pay was established at $35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the Academy, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled $7,501.

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 the projected claims less premium contributions for the next year. Expenses for health care at June 30, 2006, (the latest information available), were $158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of $295.6 million. SERS has 59,492 participants eligible to receive benefits.

9. OTHER EMPLOYEE BENEFITS

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 one and one-fourth 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.

10. 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, 2006 and ending on June 30, 2007. The rent for the lease is $36,000 annually, payable in equal monthly installments of $3,000 each.

11. CAPITALIZED LEASE - LESSEE DISCLOSURE

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 60 months and is payable monthly. The capital lease principal payments for the fiscal year totaled $ 4,558. Monthly lease payments (principal and interest) were $505 through December 2006 and $517 for January through June 2007. In addition to the lease payments, the lease agreement included an excess copy charge of $0.021 per copy for copies in excess of 10,000 copies per month on each copier.

The Academy's long-term obligations at year-end consist of the following:

	Balance 6/30/06	Additions	Reductions	Balance 6/30/07	Due Within One Year
Konica K7145	$17,415	$0	$(4,558)	$12,857	$4,985

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, 2007:

Fiscal Year Ending June 30,	Principal	Interest	Total
2008	$ 4,985	$ 955	$ 5,940
2009	5,452	488	5,940
2010	2,420	56	2,476
	$12,857	$1,499	$14,356

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.

12. PURCHASED SERVICES

For the year ended June 30, 2007, purchased service expenses were payments for services rendered by various vendors, as follows:

Professional and Technical Services	$79,905
Property Services	84,671
Travel Mileage/Meeting Expense	1,731
Communications	10,521
Contracted Craft or Trade Services	68,803
Classroom Fees	70
Total Purchased Services	$245,701

13. FISCAL AGENT

The Academy entered into a service agreement as part of its Sponsorship contract with the Treasurer of the Lucas County Educational Service Center to serve as the Chief Fiscal Officer of the Academy. As part of this agreement, the Academy shall compensate the Lucas County Educational Service Center two percent (2 percent) of the per pupil allotment paid to the Academy from the State of Ohio. A total contract payment of $15,435 was paid during the fiscal year, and an amount of $1,908 was accrued as a liability for the year ended June 30, 2007.

The contract stipulates that the Treasurer shall perform all of the following functions while serving as the Chief Fiscal Officer of the Academy:

- Maintain custody of all funds received by the Academy in segregated accounts separate from the Sponsor or any other Community School's funds;
- Maintain all books and accounts of the Academy;
- Maintain all financial records of the Academy and follow procedures for receiving and expending state funds, which procedures shall include that the Treasurer shall disburse money only upon receipt of a voucher signed by the Chief Administrative Officer of the Academy or that Officer's designee;
- Assist the Academy in meeting all financial reporting requirements established by the Auditor of Ohio;
- Invest funds of the Academy in the same manner as the funds of the Sponsor are invested, but the Treasurer shall not commingle the funds with any of the Sponsor or any other community school; and
- Pay obligations incurred by the Academy within a reasonable amount of time, not more than 14 calendar days after receipt of a properly executed voucher signed by the Chief Administrative Officer of the Academy so long as the proposed expenditure is within the approved budget and funds are available.

14. 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 2007, the Academy leased classroom space from the church and also paid the maintenance costs. (See Notes 10 and 11)

15. 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 are 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 the financial statements or on the overall financial position of the Academy at June 30, 2007.

B. School Funding

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. ODE has not yet conducted a review of the Academy's 2007 student enrollment data and FTE calculations. For 2007, the Academy's revenue adjustment was an insignificant amount.

C. Litigation

A lawsuit entitled ***Beverly Blount-Hill, et al. v. State of Ohio, et al., Case #: 3:04CV197*** was filed in the U.S. District Court, Southern District of Ohio, Western Division in October 2004. The suit alleges that the funding provisions of the Ohio Community Schools Act, O.R.C. Section 3314, violate both the Ohio and Federal constitutions. If the funding scheme is determined to be unconstitutional, it could have financial ramifications for all community/charter schools. The case is still currently pending, and the effect of this suit, if any, on Quest Academy Community School cannot presently be determined.

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Mary Taylor, CPA
Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS 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 Quest Academy Community School, Allen County; (the Academy) as of and for the year ended June 30, 2007, and have issued our report thereon dated January 2, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Academy's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Academy's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2007-001.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Academy's internal control will not prevent or detect a material financial statement misstatement.

One First National Plaza / 130 W. Second St. / Suite 2040 / Dayton, OH 45402
Telephone: (937) 285-6677 (800) 443-9274 Fax: (937) 285-6688
www.auditor.state.oh.us

**Internal Control Over Financial Reporting
(Continued)**

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, we believe the significant deficiency described above, as finding number 2007-001 to be a material weakness.

We also noted certain internal control matters that we reported to the Academy's management in a separate letter dated January 2, 2008.

Compliance and Other Matters

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

We intend this report solely for the information and use of the audit committee, management, the Governing Board and the community school's sponsor. We intend it for no one other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 2, 2008

SCHEDULE OF FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2007-001

Material Weakness - Accuracy of Financial Statements Compilation

Financial statement presentation is designed to provide an accurate picture of the financial condition of the Academy to the public. Adjustments to the compilation were necessary for accrued wages, intergovernmental payables, which represent the fringe benefits associated with the accrued wages, and capital assets. The result was that accrued liabilities increased by $56,452, or 149 percent. The over all effect was a $60,070 increase in the operating loss, or 65 percent, and a 24 percent decrease in total net assets.

Lack of effective oversight over the financial reporting process resulted in a material misstatement of the financial statements which if not detected could result in erroneous assumptions by financial statement users. In addition, the determination and adjustment of these discrepancies by audit staff results in additional audit time and cost.

Procedures should be implemented for monitoring the results of the compilation and that it properly reflects the financial condition of the Academy. Procedures should include reviews by the governing body and comparisons of the current year information to prior year information to help identify problem areas. Supporting documentation for the compilation should also be reviewed to determine if it has been properly completed.

Officials' Response:

We did not receive a response from officials to the finding reported above.

Mary Taylor, CPA
Auditor of State

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
FEBRUARY 15, 2008

88 E. Broad St. / Fourth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us