QUEST ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY

REGULAR AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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, 2008, 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 Quest Academy Community School, Allen County, as of June 30, 2008, 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 December 5, 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

December 5, 2008

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MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2008 UNAUDITED

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, 2008. 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

Key financial highlights for 2008 are as follows:

- In total, net assets were $12,730 at June 30, 2008.
- The Academy had operating revenues of $744,550 and operating expenses of $1,171,245 for fiscal year 2008. The Academy also received $247,435 in federal and state grants during fiscal year 2008. The total change in net assets for the fiscal year was a decrease of $177,928.

USING THIS ANNUAL FINANCIAL REPORT

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so that the reader can understand the Academy's financial activities. The statement of net assets and statement of revenues, expenses and changes in net assets provide information about the activities of the Academy, including all short-term and long-term financial resources and obligations.

Statement of Net Assets

These documents look at all financial transactions and ask the question, "How did we do financially during 2008?" This statement of net assets and the statement of revenues, expenses and changes in net assets answer this question. These statements include all assets and liabilities, revenues and expenses using the accrual basis of accounting, 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.

These two statements report the Academy's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the Academy as a whole, the financial position of the Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 7 and 8 of this report.

The statement of cash flows provides information about how the Academy finances and is meeting the cash flow needs of its operations. The statement of cash flows can be found on page 9 of this report.

The notes to the financial statements are an integral part of the financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Table 1 provides a summary of the Academy's net assets for fiscal year 2008 compared to fiscal year 2007:

Table 1
Net Assets

Assets	**2008**	**2007**
Current Assets	$100,669	$271,966
Capital Assets, Net	26,075	12,917
Total Assets	126,744	284,883
Liabilities		
Current Liabilities	106,142	81,368
Noncurrent Liabilities	7,872	12,857
Total Liabilities	114,014	94,225
Net Assets		
Invested in Capital Assets	18,203	60
Restricted	44,859	133,680
Unrestricted	(50,332)	56,918
Total Net Assets	$12,730	$190,658

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2008, the Academy's net assets totaled $12,730. Current assets decreased and current liabilities, including accrued wages and accounts payable, increased during fiscal year 2008.

The revenue generated by community schools are heavily dependent upon per-pupil allotment given by the State foundation program and federal entitlement programs. Foundation payments attributed to 74.3 percent of total operating and non-operating revenues during fiscal year 2008. The decrease in funding corresponds to the decrease in enrollment.

The Statement of Revenues, Expenses, and Changes in Net Assets show 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

	2008	**2007**
Operating Revenue		
State foundation	$ 738,707	$764,864
Food Services	5,684	5,260
Extracurricular Activities		626
Other Operating Revenues	159	246
Total Operating Revenues	744,550	770,996
Operating Expenses		
Salaries and Wages	680,442	495,803
Fringe Benefits	151,775	123,124
Purchased Services	245,109	245,701
Materials and Supplies	69,036	36,142
Depreciation Expense	10,334	18,267
Other Operating Expense	14,549	5,585
Total Operating Expenses	1,171,245	924,622

Non-Operating Revenues and (Expenses)		
Operating Grants – Federal and State	247,435	150,024
Contributions and Donations	2,110	15,000
Interest Income	177	588
Interest and Fiscal Charges	(955)	(1,382)
Total Non-Operating Revenues and (Expenses)	248,767	164,230
Increase/(Decrease) in Net Assets	($177,928)	$ 10,604

CAPITAL ASSETS

At the end of fiscal year 2008, the Academy had $23,565 invested in furniture, fixtures, and equipment, net of accumulated depreciation and $2,510 invested in leasehold improvements, net of accumulated depreciation. Table 3 shows fiscal year 2008 balances compared to fiscal year 2007:

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

	2008	**2007**
Furniture, Fixtures, and Equipment	$23,565	$10,179
Leasehold Improvements	2,510	2,738
Totals	$26,075	$12,917

For more information on capital assets, see Note 6 to the basic financial statements.

DEBT

At fiscal year ended June 30, 2008 the Academy had $7,872 in capital lease obligations outstanding, of which $5,452 is due within one year and $2,420 is due in more than one year. Table 4 summarizes the capital lease obligation outstanding.

Table 4
Outstanding Debt, at Year End

	2008	**2007**
Capital Leases Payable	$7,872	$12,857

For more information on outstanding debt, see Note 12 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 2007-2008 school year, there were approximately 109 students enrolled in the Academy.

In order to continually provide learning opportunities to the Academy's students, the Academy will apply resources to best meet the needs of its students. It is the intent of the Academy to apply for State and Federal funds that are made available to finance operations.

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. John Doxie, Treasurer of Quest Academy Community School, 190 E. 8th Street, Lima, Ohio 45804 or e-mail at john.doxie@huntington.com.

QUEST ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2008

Assets:	
Current Assets:	
Cash and Cash Equivalents	$71,707
Receivables:	
Intergovernmental	22,352
Prepayments	6,610
Total Current Assets	100,669
Non-Current Assets:	
Capital Assets, Net of Accumulated Depreciation	26,075
Total Non-Current Assets	26,075
Total Assets	126,744
Liabilities:	
Current Liabilities:	
Accounts Payable	2,007
Compensated Absences Payable	2,234
Accrued Wages and Benefits	66,566
Due to Students	3,938
Intergovernmental Payable	3,846
Pension Obligation Payable	27,551
Total Current Liabilities	106,142
Non-current Liabilities:	
Due Within One Year	5,452
Due in More Than One Year	2,420
Total Noncurrent Liabilities	7,872
Total Liabilities	114,014
Net Assets:	
Invested in Capital Assets, Net of Related Debt	18,203
Restricted	44,859
Unrestricted (deficit)	(50,332)
Total Net Assets	$12,730

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, 2008

Operating Revenues:	
State Foundation	$738,707
Food Services	5,684
Other Operating Revenues	159
Total Operating Revenues	744,550
Operating Expenses:	
Salaries and Wages	680,442
Fringe Benefits	151,775
Purchased Services	245,109
Materials and Supplies	69,036
Depreciation	10,334
Other Operating Expenses	14,549
Total Operating Expenses	1,171,245
Operating Loss	(426,695)
Non-Operating Revenues and Expenses:	
Federal and State Operating grants	247,435
Contributions and Donations	2,110
Interest Revenue	177
Interest and Fiscal Charges	(955)
Total Non-Operating Revenues and (Expenses)	248,767
Change in Net Assets	(177,928)
Net Assets at Beginning of Year	190,658
Net Assets at End of Year	$12,730

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, 2008

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:	
Cash Received from State Foundation	$738,707
Cash Received from Food Service Operations	5,684
Cash Received from Other Operating Sources	7,782
Cash Payments for Salaries and Wages	(665,466)
Cash Payments for Fringe Benefits	(142,486)
Cash Payments to Suppliers for Goods and Services	(246,952)
Cash Payments for Materials and Supplies	(73,774)
Cash Payments for Other Expenses	(14,329)
Net Cash Used for Operating Activities	(390,834)
Cash Flows from Noncapital Financing Activities:	
Cash Received from Operating Grants - Federal and State	356,515
Cash Received Contributions and Donations	2,110
Net Cash Provided by Noncapital Financing Activities	358,625
Cash Flows from Capital and Related Financing Activities:	
Cash Payments for Interest and Fiscal Charges	(955)
Cash Payments for Principal Retirement on Capital Lease	(4,985)
Cash Payments for Acquisition of Capital Assets	(23,492)
Net Cash Used for Capital and Related Financing Activities	(29,432)
Cash Flows from Investing Activities:	
Cash Received from Interest on Investments	177
Net Decrease in Cash and Cash Equivalents	(61,464)
Cash and Cash Equivalents at Beginning of Year	133,171
Cash and Cash Equivalents at End of Year	$71,707
Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating Loss	($426,695)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation	10,334
Changes in Assets and Liabilities:	
Decrease in Prepayments	753
Decrease in Accounts Payable	(2,643)
Decrease in Compensated Absences Payable	(64)
Increase in Accrued Wages and Benefits	18,090
Decrease in Intergovernmental Payable	(19,697)
Increase in Due to Students	1,537
Increase in Pension Obligation Payable	27,551
Total Adjustments	35,861
Net Cash Used for Operating Activities	($390,834)

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 sixth for the fiscal year ended 2008.

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 11 non-certified and 18 certificated full time teaching personnel who provide services to 109 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 14)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic 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 enterprise 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 2008 include: EMIS, ONE NET, SCHOOL NET, IDEA Part B, Title I, Title IIA, Title IID, Title IV, Title V, ECSE IDEA, 21st Century Grant, and the School Lunch and Breakfast Programs. Amounts received under the above named programs for fiscal year 2008 totaled $358,472.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2008, 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, 2008. These expenses are reported as accrued liabilities in the accompanying financial statements, which include STRS and SERS employer's share of $27,551, Medicare of $852 and worker's compensation of $1,036.

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.

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. Twelve 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 Academy'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 $71,707, and the bank balance was $106,759. $100,000 of the Academy's bank balance 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, 2008, $6,759 of the Academy's bank balance of $106,759 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. ACCOUNTABILITY

For fiscal year 2008, the Academy has implemented GASB Statement No. 45, *"Accounting and Financial Reporting for Postemployment Benefits Other than Pensions",* GASB Statement No. 48, *"Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues"*, and GASB Statement No. 50, *"Pension Disclosures*".

GASB Statement No. 45 establishes uniform standards of financial reporting for other postemployment benefits and increases the usefulness and improves the faithfulness of representations in the financial reports. The implementation of GASB Statement No.45 did not have an effect on the financial statements of the Academy; however, certain disclosures related to postemployment benefits (see Note 9) have been modified to conform to the new reporting requirements.

GASB Statement No. 48 establishes criteria to ascertain whether certain transactions should be regarded as sales or as collateralized borrowings, as well as disclosure requirements for future revenues that are pledged and sold. The implementation of GASB Statement No. 48 did not have an effect on the financial statements of the Academy.

GASB Statement No. 50 establishes standards that more closely align the financial reporting requirements for pensions with those of other postemployment benefits. The implementation of GASB Statement No. 50 did not have an effect on the financial statements of the Academy.

5. RECEIVABLES

Receivables at June 30, 2008, consisted of intergovernmental receivables arising from grants and entitlements. All receivables are considered collectable in full. A summary of the principal items of receivables follows:

Receivables	Amount
Intergovernmental:	
Title V	$166
Title IV	1,530
21st Century Grant	20,656
Total Intergovernmental Receivables	$22,352

6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008, was as follows:

	Balance 06/30/07	Additions	Deductions	Balance 06/30/08
Capital Assets:				
Furniture, Fixtures, and Equipment	$72,071	$23,492		$95,563
Leasehold Improvements	3,422			3,422
Total Capital Assets	75,493	23,492		98,985
Less: Accumulated Depreciation				
Furniture, Fixtures, and Equipment	(61,892)	(10,106)		(71,998)
Leasehold Improvements	(684)	(228)		(912)
Total Accumulated Depreciation	(62,576)	(10,334)		(72,910)
Total Capital Assets, Net of Accumulated Depreciation	$12,917	$13,158	$0	$26,075

7. RISK MANAGEMENT

A. Insurance Coverage

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the fiscal year ended June 30, 2008, 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 and there have been no significant reductions in insurance coverage from fiscal year 2007.

7. RISK MANAGEMENT (Continued)

B. Workers' Compensation

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

C. 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).

8. DEFINED BENEFIT PENSION PLANS

A. School Employee Retirement System

Plan Description - The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer 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 43215-3746.

Funding Policy - 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 2008, 9.16 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 by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were $14,887, $12,507 and $9,662 respectively; 53.85 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

B. State Teachers Retirement System

Plan Description - The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. 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 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan.

8. DEFINED BENEFIT PENSION PLANS (Continued)

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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code. 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For the fiscal year ended June 30, 2008, 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 2007, 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, 2008, 2007, and 2006 were $65,382, $54,067, and $50,889 respectively; 88.42 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006. Contributions to the DC and Combined Plans for fiscal year 2008 were $4,782 made by the Academy and $7,795 made by the plan members.

9. POST-EMPLOYMENT BENEFITS

A. School Employee Retirement System

Plan Description – The Academy participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

9. POSTEMPLOYMENT BENEFITS (Continued)

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, the surcharge amount was $2,544.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The Academy's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were $8,728, $7,501, and $4,953 respectively; 53.85 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2008, this actuarially required allocation was 0.66 percent of covered payroll. The Academy's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 were $1,073, $851, and $769 respectively; 53.85 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

B. State Teachers Retirement System

Plan Description – The Academy contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Academy's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were $5,029, $4,088, and $3,915 respectively; 88.42 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

10. 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.

10. OTHER EMPLOYEE BENEFITS (Continued)

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.

11. OPERATING LEASES

The Academy entered into a lease for classroom facilities with the Philippian Missionary Baptist Church, located at 190 East Eighth Street, Lima, Ohio. The term of the lease is for one year commencing on July 1, 2007 and ending on June 30, 2008. The rent for the lease is $36,000 annually, payable in equal monthly installments of $3,000 each.

12. 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 $ 4,985. 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 6/30/07	Additions	Reductions	Balance 6/30/08	Due Within One Year
Konica K7145	$12,857	$0	($4,985)	$7,872	$5,452

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, 2008:

Fiscal Year Ending June 30,	Principal	Interest	Total
2009	$5,452	$488	$5,940
2010	2,420	56	2,476
	$7,872	$544	$8,416

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.

13. PURCHASED SERVICES

For the year ended June 30, 2008, purchased service expenses were payments for services rendered by various vendors, as follows:

Professional and Technical Services	$68,836
Property Services	91,914
Travel Mileage/Meeting Expense	7,495
Communications	11,924
Contracted Craft or Trade Services	63,605
Classroom Fees	1,335
Total Purchased Services	$245,109

14. FISCAL AGENT

The Academy entered into a service agreement as part of its Sponsorship contract with the Fiscal Officer 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 $18,266 was paid during the fiscal year, and an amount of $1,958 was accrued as a liability for the year ended June 30, 2008.

The contract stipulates that the Fiscal Officer 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 Fiscal Officer 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 Fiscal Officer 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.

15. RELATED PARTIES

The Academy committed to the purchase of a copier under a capital lease in the name of Philippian Missionary Baptist Church. The Philippian Missionary Baptist Church is also leasing a copier. The two copiers were leased under one legal agreement to obtain a better price for each copier. The Executive Administrator (Superintendent) for Quest Academy is also the minister of the Philippian Missionary Baptist Church. During the year ended 2008, the Academy leased classroom space from the church and also paid the maintenance costs. (See Notes 11 and 12)

16. CONTINGENCIES

A. Grants

The Academy receives significant financial assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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, 2008.

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. For 2008, the Academy’s revenue adjustment was an insignificant amount.

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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, 2008, and have issued our report thereon dated December 5, 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.

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.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted a certain matter that we reported to the Academy's management in a separate letter dated December 5, 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 did note a certain noncompliance or other matter that we reported to the Academy's management in a separate letter dated December 5, 2008.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

December 5, 2008

QUEST ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2008

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2007-001	Accuracy of financial statements - financial statements required adjustment for unreported liabilities.	Yes	

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
JANUARY 8, 2009