



Dave Yost • Auditor of State



**QUEST ACADEMY COMMUNITY SCHOOL  
ALLEN COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Governing Board:

We have audited the accompanying basic financial statements of Quest Academy Community School, Allen County, (the Academy), as of and for the fiscal year ended June 30, 2010, 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 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, 2010, 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 March 15, 2011, 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.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the Academy's basic financial statements taken as a whole. The Schedule of Federal Awards Receipts and Expenditures (the Schedule) provides additional information required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The Schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This Schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



**Dave Yost**  
Auditor of State

March 15, 2011

**QUEST ACADEMY COMMUNITY SCHOOL  
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
UNAUDITED**

The management's discussion and analysis of Quest Academy Community School's (the Academy) financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

**Financial Highlights**

Key financial highlights for 2010 are as follows:

- In total, net assets were \$25,547 at June 30, 2010.
- The Academy had operating revenues of \$920,908 and operating expenses of \$1,481,665 for fiscal year 2010. The Academy also received \$537,621 in Federal and State grants during fiscal year 2010. The total change in net assets for the fiscal year was a decrease of \$23,180.

**Using these Basic Financial Statements**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so 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.

**Reporting the Academy Financial Activities**

***Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows***

These documents look at all financial transactions and ask the question, "How did we do financially during 2010?" The statement of net assets and the statement of revenues, expenses and changes in net assets answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account 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.

**QUEST ACADEMY COMMUNITY SCHOOL  
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
UNAUDITED  
(Continued)**

Table 1 provides a summary of the Academy's net assets for fiscal year 2010 compared to fiscal year 2009:

**Table 1  
Net Assets**

<b>Assets:</b>	<b>2010</b>	<b>2009</b>
Current assets	\$103,633	\$187,425
Capital assets, net	44,682	24,638
Total assets	<u>148,315</u>	<u>212,063</u>
<b>Liabilities:</b>		
Current liabilities	122,768	163,336
Total liabilities	<u>122,768</u>	<u>163,336</u>
<b>Net Assets:</b>		
Invested in capital assets	44,682	22,218
Restricted	16,813	37,178
Unrestricted (deficit)	<u>(35,948)</u>	<u>(10,669)</u>
Total net assets	<u><u>\$ 25,547</u></u>	<u><u>\$ 48,727</u></u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2010, the Academy's net assets totaled \$25,547. Both current assets and current liabilities decreased during fiscal year 2010. Cash and cash equivalents decreased \$105,706 in fiscal year 2010.

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 62.5% of total operating and non-operating revenues during fiscal year 2010.

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. The increase in non-operating grants is due to the receipt of American Recovery and Reinvestment Act (ARRA) grants in fiscal year 2010.

**Table 2  
Change in Net Assets**

<b>Operating Revenues:</b>	<b>2010</b>	<b>2009</b>
State foundation	\$912,732	\$953,537
Food services	3,143	5,310
Other operating revenue	5,033	6,982
Total operating revenue	<u>920,908</u>	<u>965,829</u>
<b>Operating Expenses:</b>		
Salaries and wages	731,217	724,258
Fringe benefits	199,392	216,075
Purchased services	412,071	308,446
Materials and supplies	108,734	68,242
Depreciation	8,565	9,610
Other	<u>21,686</u>	<u>11,610</u>
Total operating expenses	<u><u>1,481,665</u></u>	<u><u>1,338,241</u></u>

(Continued)

**QUEST ACADEMY COMMUNITY SCHOOL  
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
UNAUDITED  
(Continued)**

**Table 2  
Change in Net Assets  
(Continued)**

	<b>2010</b>	<b>2009</b>
<b>Non-operating revenues:</b>		
Federal and State grants	537,621	420,351
Interest income	12	31
Interest and fiscal charges	(56)	(488)
Total non-operating revenues	537,577	419,894
Change in net assets	(23,180)	47,482
Net assets at beginning of year	48,727	1,245
Net assets at end of year	\$25,547	\$48,727

**Capital Assets**

At June 30, 2010, the Academy had \$23,632 invested in furniture, fixtures and equipment, net of accumulated depreciation, \$18,996 invested in buildings and improvements, net of accumulated depreciation and \$2,054 invested in leasehold improvements, net of accumulated depreciation. For more information on capital assets, see Note 6 to the basic financial statements.

**Debt Administration**

At June 30, 2010, the Academy did not have any long-term obligations outstanding. During fiscal year 2010, the Academy made the final \$2,420 principal payment on a copier lease. See Note 12 in the notes to the basic financial statements for more detail on capital lease.

**Current Financial Related Activities**

The utilization of the Lucas County Educational Service Center as the Academy's fiscal agent greatly improves the internal control structure and quality of its financial records. During the 2009-2010 school year, there were approximately 151 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 its operations.

**Contacting the School's Financial Management**

This financial report is designed to provide our clients and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. John Doxie, Treasurer of the Quest Academy Community School, 190 E. 8<sup>th</sup> Street, Lima, Ohio 45804 or email at john.doxie@huntington.com.

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**QUEST ACADEMY COMMUNITY SCHOOL  
ALLEN COUNTY**

**STATEMENT OF NET ASSETS  
JUNE 30, 2010**

**Assets:**

**Current assets:**

Equity in pooled cash Cash and Cash Equivalents	\$26,231
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**Receivables:**

Intergovernmental	60,210
Prepayments	17,192
<b>Total Current Assets</b>	<b>103,633</b>

**Non-Current Assets:**

Capital Assets, Net of Accumulated Depreciation	44,682
<b>Total Non-Current Assets</b>	<b>44,682</b>
 Total Assets	 <b>148,315</b>

**Liabilities:**

**Current Liabilities:**

Accounts Payable	5,550
Compensated Absences Payable	1,157
Accrued Wages and Benefits	84,263
Due to Students	2,910
Intergovernmental Payable	6,598
Pension Obligation Payable	17,968
Deferred Revenue	4,322
<b>Total current liabilities</b>	<b>122,768</b>
 Total Liabilities	 <b>122,768</b>

**Net Assets:**

Invested in Capital Assets	44,682
Restricted for State Funded Programs	920
Restricted for Federally Funded Programs	15,893
Unrestricted (Deficit)	(35,948)
<b>Total Net Assets</b>	<b>\$25,547</b>

*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, 2010**

<b>Operating Revenues:</b>	
State Foundation	\$912,732
Food Services	3,143
Other Operating Revenues	<u>5,033</u>
Total Operating Revenues	<u>920,908</u>
<b>Operating Expenses:</b>	
Salaries and Wages	731,217
Fringe Benefits	199,392
Purchased Services	412,071
Capital Outlay	108,734
Depreciation Expense	8,565
Other Operating Expense	<u>21,686</u>
Total Operating Expenses	<u>1,481,665</u>
Operating Loss	<u>(560,757)</u>
<b>Non-Operating Revenues and Expenses:</b>	
Federal and State Operating Grants	537,621
Interest Revenue	12
Interest and Fiscal Charges	<u>(56)</u>
Total Non-Operating Revenues and Expenses	<u>537,577</u>
Change in net assets	(23,180)
Net assets at beginning of year	<u>48,727</u>
Net assets at end of year	<u><u>\$25,547</u></u>

*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, 2010**

<b>Cash Flows from Operating Activities:</b>	
Cash Received from State Foundation	\$912,732
Cash Received from Food Service Operations	11,209
Cash Received from Other Operating Sources	5,033
Cash Payments for Salaries and Wages	(726,642)
Cash Payments for Fringe Benefits	(236,567)
Cash Payments to Suppliers for Goods and Services	(416,710)
Cash Payments for Materials and Supplies	(121,798)
Cash Payments for Other Expenses	(21,836)
Net Cash Used for Operating Activities	<u>(594,579)</u>
<b>Cash Flows from Non-capital Financing Activities:</b>	
Cash Received From Operating Grants - Federal and State	526,161
Net Cash Provided by Non-capital Financing Activities	<u>526,161</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>	
Interest and Fiscal Charges	(56)
Principal Retirement on Capital Lease	(2,420)
Acquisition of Capital Assets	(34,644)
Net Cash Used for Capital and Related Financing Activities	<u>(37,120)</u>
<b>Cash Flows from Investing Activities:</b>	
Interest Received	12
Net Cash Provided by Investing Activities	<u>12</u>
Net Decrease in Cash and Cash Equivalents	(105,706)
Cash and Cash Equivalents at Beginning of Year	131,937
Cash and Cash Equivalents at End of Year	<u>\$26,231</u>
<b>Reconciliation of Operating Loss to Net Cash Used for Operating Activities:</b>	
Operating Loss	(\$560,757)
<b>Adjustments:</b>	
Depreciation	8,565
Changes in assets and liabilities:	
Decrease in Accounts Receivable	2,444
(Increase) in Prepayments	(8,576)
Increase in Accounts Payable	975
Increase in Accrued Wages and Benefits	8,501
(Decrease) in Intergovernmental Payable	(11,522)
(Decrease) in Compensated Absences Payable	(1,854)
(Decrease) in Pension Obligation Payable	(32,688)
Increase in Due to Students	153
Net Cash Used For Operating Activities	<u><u>(\$594,759)</u></u>

*See accompanying notes to the basic financial statements.*

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**QUEST ACADEMY COMMUNITY SCHOOL  
ALLEN COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**1. DESCRIPTION OF THE ACADEMY**

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 2010.

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 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 13 non-certified and 16 certified full-time teaching personnel who provide services to 151 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 (BFS) of the Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applied Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989, provided those pronouncements do not conflict with or contradict GASB pronouncements. The more significant of the Academy's policies are described below.

**QUEST ACADEMY COMMUNITY SCHOOL  
ALLEN COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

**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 its financial activities. Enterprise 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 statement of net assets. The statement of revenues, expenses and 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 basic financial statements. The Academy's basic financial statements are prepared using the accrual basis of accounting.

Revenue 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 nonexchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal 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 the Academy on a 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 (ORC) Section 5705, except ORC 3314.03(A)(11)(d) which requires community schools to prepare 5 year forecasts in accordance with ORC 5705.391. 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**

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.

**QUEST ACADEMY COMMUNITY SCHOOL  
ALLEN COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

**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. Revenue 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 including 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 2010 include: EMIS, OneNet, SchoolNet, American Recovery and Reinvestment Act (ARRA), IDEA Part B, Title I, Title II-A, Title II-D, Title IV-A, Title V, 21<sup>st</sup> Century Grant and the School Lunch and Breakfast Programs. Amounts received under the above name programs for fiscal year 2010 totaled \$537,621.

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2010, 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 five hundred dollars for tangible 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:

<u>Description</u>	<u>Estimated Lives</u>
Building Improvements	15 years
Leasehold Improvements	15 years
Furniture, Fixtures and Equipment	5 years

**I. Accrued Liabilities**

The Academy has recognized certain expenses due, but unpaid as of June 30, 2010. These expenses are reported as accrued liabilities in the accompanying financial statements, which includes STRS Ohio and SERS employer's share of \$17,968, Medicare of \$1,121 and Workers' Compensation of \$2,004.

**QUEST ACADEMY COMMUNITY SCHOOL  
ALLEN COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

**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 per unused day for certified staff and 75% of the daily rate for non-certified staff. Seven members of the staff had personal leave earned in the current year that had not been used at year end. The unused personal leave amounts are shown as current liabilities.

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 one hundred twenty days, at the per diem rate at the time or 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, net of related debt consist 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 or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Academy applies restricted resources first 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 basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**QUEST ACADEMY COMMUNITY SCHOOL  
ALLEN COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

**3. DEPOSITS AND INVESTMENTS**

State statutes 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 may 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; and,
6. The State Treasurer's investment pool the State Treasury Asset Reserve of Ohio (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.

**QUEST ACADEMY COMMUNITY SCHOOL  
ALLEN COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

**3. DEPOSITS AND INVESTMENTS (Continued)**

**A. Deposits**

At June 30, 2010, the carrying amount of the Academy's deposits was \$26,231. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2010, the Academy's entire bank balance of \$58,528 was insured by federal depository insurance.

Custodial credit risk is the risk that, in the event of bank failure, the Academy's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Academy.

**B. Investments**

The Academy had no investments.

**4. ACCOUNTABILITY**

**Change in Accounting Principles**

For fiscal year 2010, the Academy has implemented GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets", GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", and GASB Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies".

GASB Statement No. 51 addresses accounting and financial reporting standards for intangible assets, which are assets that lack physical substance, are nonfinancial in nature, and have an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, water rights, computer software, patents, and trademarks. GASB Statement No. 51 improves the quality of financial reporting by creating consistency in the recognition, initial measurement, and amortization of intangible assets. The implementation of GASB Statement No. 51 did not have an effect on the financial statements of the Academy.

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are financial arrangements used by governments to manage specific risks or to make investments. Common types of derivative instruments include interest rate and commodity swaps, interest rate locks, options, swaptions, forward contracts, and futures contracts. The implementation of GASB Statement No. 53 did not have an effect on the financial statements of the Academy.

**QUEST ACADEMY COMMUNITY SCHOOL  
ALLEN COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

**4. ACCOUNTABILITY (Continued)**

GASB Statement No. 58 establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. GASB Statement No. 58 requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms a new payment plan. The implementation of GASB Statement No. 58 did not have an effect on the financial statements of the Academy.

**5. RECEIVABLES**

Receivables at June 30, 2010, 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:

<b>Receivables:</b>	<u><b>Amount</b></u>
<b>Intergovernmental:</b>	
Title I	\$ 4,964
Title I-A	9,480
ARRA-Title I	17,818
Title II-A	1,937
21st Century	<u>26,011</u>
Total intergovernmental receivables	<u>\$60,210</u>

**6. CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	<u><b>Balance 6/30/2009</b></u>	<u><b>Additions</b></u>	<u><b>Deductions</b></u>	<u><b>Balance 6/30/2010</b></u>
<b>Capital assets:</b>				
Furniture, Fixtures and Equipment	\$103,736	\$ 8,958		\$112,694
Building and improvements		19,651		19,651
Leasehold Improvements	3,422			3,422
Total Capital Assets	<u>107,158</u>	<u>28,609</u>		<u>135,767</u>
 Less: Accumulated Depreciation				
Furniture, Fixtures and Equipment	(81,380)	(7,682)		(89,062)
Buildings and improvements		(655)		(655)
Leasehold Improvements	(1,140)	(228)		(1,368)
Total Accumulated Depreciation	<u>(82,520)</u>	<u>(8,565)</u>		<u>(91,085)</u>
 Total Capital Assets, Net of Accumulated Depreciation	<u>\$24,638</u>	<u>\$20,044</u>	<u>\$0</u>	<u>\$44,682</u>

**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, 2010, the Academy contracted with the Indiana Insurance Company for insurance coverage as follows:

**QUEST ACADEMY COMMUNITY SCHOOL  
ALLEN COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

**7. RISK MANAGEMENT (Continued)**

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. (See Note 11)

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 2009.

**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. PENSION PLANS**

**A. School Employees Retirement System**

**Plan Description** - The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor 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. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under *Employers/Audit Resources*.

**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 2010, 12.78 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, 2010, 2009 and 2008 were \$22,988, \$18,642 and \$14,887, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

**QUEST ACADEMY COMMUNITY SCHOOL  
ALLEN COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

**8. PENSION PLANS (Continued)**

**B. State Teachers Retirement System of Ohio**

**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](http://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. 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 fiscal year 2010, 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. 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, 2010, 2009 and 2008 were \$71,080, \$64,596 and \$65,382, respectively; 90.66 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were \$12,776 made by the Academy and \$9,126 made by the plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2010, certain members of the Governing Board have elected Social Security. The Academy's liability is 6.2 percent of wages paid.

**QUEST ACADEMY COMMUNITY SCHOOL  
ALLEN COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

**9. POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

**Plan Description** - The Academy participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) 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, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Chapter 3309.69 of the Ohio Revised Code.

Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2009 was \$96.40 and SERS' reimbursement to retirees was \$45.50. 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. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under *Employers/Audit Resources*.

**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 105(e). For 2010, 0.46 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2010, the actuarially determined amount was \$3,105.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The Academy's contributions for health care (including surcharge) for the fiscal years ended June 30, 2010, 2009, and 2008 were \$3,921, \$8,531 and \$8,728, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2010, this actuarially required allocation was 0.76 percent of covered payroll. The Academy's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$1,367, \$1,538 and \$851, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

**QUEST ACADEMY COMMUNITY SCHOOL  
ALLEN COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

**9. POSTEMPLOYMENT BENEFITS (Continued)**

**B. State Teachers Retirement System of Ohio**

**Plan Description** - The Academy contributes to the cost sharing, multiple employer defined benefit Health Plan (the "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](http://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 2010, 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, 2010, 2009, and 2008 were \$5,468, \$4,969 and \$5,029, respectively; 90.66 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

**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.

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 for certified staff and 75% of daily rate for non-certified staff.

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 Philipian Missionary Baptist Church, located at 190 East 8<sup>th</sup> Street, Lima, Ohio 45804. The term of the lease was for one year commencing on July 1, 2009 and ending on June 30, 2010. The rent for the lease was \$36,000 annually, payable in equal monthly installments of \$3,000 each.

**QUEST ACADEMY COMMUNITY SCHOOL  
ALLEN COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

**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 had a term of 60 months and was payable monthly. The capital lease principal payments for the fiscal year totaled \$2,420. 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:

	<b>Balance 6/30/2009</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance 6/30/2010</b>
Konica K7145	\$2,420	\$0	(\$2,420)	\$0

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, 2010, purchased service expenses were payments for services rendered by various vendors, as follows:

Professional and Technical Services	\$147,781
Property Services	114,556
Travel Mileage/Meeting Expense	22,614
Communications	19,729
Utilities	1,537
Contracted Craft or Trade Services	103,007
Pupil transportation services	2,847
Total Purchased Services	\$412,071

**14. 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 of all funds paid to the Academy. A total contract payment of \$25,059 was paid during the fiscal year and an amount of \$1,964 was accrued as a liability for the year ended June 30, 2010.

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;

**QUEST ACADEMY COMMUNITY SCHOOL  
ALLEN COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

**14. FISCAL AGENT (Continued)**

- 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 the State 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.

**15. RELATED PARTIES**

The Academy committed to the purchase of a copier under a capital lease in the name of Philipian Missionary Baptist Church. The Philipian 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 the Academy is also the minister of the Philipian Missionary Baptist Church. During the fiscal year ended 2010, the Academy leased classroom space from the church and also paid the maintenance costs (See Notes 11 and 12).

**16. CONTINGENT LIABILITIES**

**A. Grants**

The Academy received financial assistance from Federal and State agencies in the form of grants. The expense 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. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2010.

**B. Potential Litigation**

The Academy is disputing a cell phone bill in the amount of \$17,032. This disagreement is due to phones that were activated by the Academy's cell phone provider when they were not requested to be activated by the School. The School does not believe they should have to pay these charges since they did not request the activation of the phones. At this time the cell phone provider has not taken legal action to resolve this bill.

**C. State Foundation 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. The Academy was over paid \$1,559 in fiscal year 2010 and the overpayment will be deducted from future foundation payments.

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**QUEST ACADEMY COMMUNITY SCHOOL  
ALLEN COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

<b>Federal Grantor/ Pass Through Grantor Program Title</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>	<b>Expenditures</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<i>(Passed through Ohio Department of Education)</i>			
Child Nutrition Cluster:			
School Breakfast Program	10.553	\$25,408	\$25,408
National School Lunch Program	10.555	<u>60,073</u>	<u>60,073</u>
Total Child Nutrition Cluster		<u>85,481</u>	<u>85,481</u>
ARRA -Child Nutrition Discretionary Grant, Recovery Act	10.579	<u>9,783</u>	<u>8,458</u>
Total U.S. Department of Agriculture		<u>95,264</u>	<u>93,939</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<i>(Passed through Ohio Department of Education)</i>			
Title I Cluster:			
Title I Grants to Local Educational Agencies	84.010	90,084	100,218
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	<u>16,756</u>	<u>17,311</u>
Total Title I Cluster		<u>106,840</u>	<u>117,529</u>
Special Education Cluster:			
Special Education Grants to States	84.027	20,320	24,281
ARRA - Special Education Grants to States, Recovery Act	84.391	<u>16,058</u>	<u>14,947</u>
Total Special Education Cluster		<u>36,378</u>	<u>39,228</u>
Safe and Drug-Free Schools and Communities State Grants	84.186	67	260
Twenty-First Century Community Learning Centers	84.287	191,146	192,078
Education Technology State Grants	84.318	110	115
Improving Teacher Quality State Grants	84.367	4,928	15,817
School Improvement Grants	84.377	19,729	15,172
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants	84.394	<u>62,449</u>	<u>62,449</u>
Total U.S. Department of Education		<u>421,647</u>	<u>442,648</u>
Total Federal Financial Assistance		<u>\$516,911</u>	<u>\$536,587</u>

*See accompanying notes to the Schedule of Federal Awards Receipts and Expenditures.*

**QUEST ACADEMY COMMUNITY SCHOOL  
ALLEN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) reports the Quest Academy Community School (the Academy's) federal award programs' receipts and disbursements. The schedule has been prepared on the cash basis of accounting.

**NOTE B - CHILD NUTRITION CLUSTER**

The Academy commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the Academy assumes it expends federal monies first.

**NOTE C – MATCHING REQUIREMENTS**

Certain Federal programs require the Academy to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The Academy has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.



# Dave Yost • 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 E. 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 fiscal year ended June 30, 2010, and have issued our report thereon dated March 15, 2011. 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 the purpose of expressing our opinion on the financial statements, but not for the purpose of opining 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Academy's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

### 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 matter we must report under *Government Auditing Standards*.

**Compliance and Other Matters  
(Continued)**

We did note certain matters not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated March 15, 2011.

We intend this report solely for the information and use of management, the Governing Board, the Academy's sponsor, and federal awarding agencies and pass-through entities and others within the Academy. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

**Dave Yost**  
Auditor of State

March 15, 2011



# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

To the Governing Board:

### Compliance

We have audited the compliance of Quest Academy Community School, Allen County (the Academy) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each Quest Academy Community School's major federal programs for the fiscal year ended June 30, 2010. The summary of auditor's results section of the accompanying schedule of findings identifies the Academy's major federal programs. The Academy's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the Academy's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Academy's compliance with those requirements.

In our opinion, the Quest Academy Community School complied, in all material respects, with the requirements referred to above that could directly and materially affect its major federal programs for the fiscal year ended June 30, 2010.

### Internal Control Over Compliance

The Academy's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Academy's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Academy's internal control over compliance.

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**Internal Control Over Compliance  
(Continued)**

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

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

We intend this report solely for the information and use of the management, Governing Board, the Academy's sponsor, others within the entity, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State

March 15, 2011

**QUEST ACADEMY COMMUNITY SCHOOL  
ALLEN COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2010**

**1. SUMMARY OF AUDITOR'S RESULTS**

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	No
(d)(1)(vii)	Major Programs (list):	Title I Cluster (Title 1 Grants to Local Educational Agencies CFDA #84.010 and ARRA Title 1 Grants to Local Educational Agencies – Recovery Act CFDA #84.391)  21 <sup>st</sup> Century Grant – CFDA #84.287
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

None

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

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

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedures enumerated below, which were agreed to by to by the Board, solely to assist the Board in evaluating whether Quest Academy Community School (the Community School) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board adopted an anti-harassment policy at its meeting on February 8, 2010.
2. We read the policy, noting it included the following requirements from Ohio Rev. Code Section 3313.666(B):
  - 1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
  - 2) A definition of harassment, intimidation, or bullying that shall include the definition in division (A) of Ohio Rev. Code Section 3313.666;
  - 3) A procedure for reporting prohibited incidents;
  - 4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
  - 5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;

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- 6) A procedure for documenting any prohibited incident that is reported;
- 7) A procedure for responding to and investigating any reported incident;
- 8) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
- 9) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;
- 10) A requirement that the district administration semiannually provide the president of the board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and School's sponsor, and is not intended to be and should not be used by anyone other than these specified parties.



**Dave Yost**  
Auditor of State

March 15, 2011



# Dave Yost • 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  
APRIL 12, 2011**