



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 East 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, 2011, 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, 2011, 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 February 27, 2012, 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 assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

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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

February 27, 2012

**QUEST ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED**

The management's 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, 2011. 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 2011 are as follows:

- In total, net assets were \$5,831 at June 30, 2011.
- The Academy had operating revenues of \$925,855 and operating expenses of \$1,546,161 for fiscal year 2011. The Academy also received \$583,147 in federal and state grants during fiscal year 2011. The total change in net assets for the fiscal year was a decrease of \$19,716. The net change in net assets can be, and are outlined in Table 2, explained with operating expenses for 2011 having seen an increase higher than both the offset of operating and non operating revenues.

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

These documents look at all financial transactions and ask the question, "How did we do financially during 2011?" 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, 2011
UNAUDITED
(Continued)**

Table 1 provides a summary of the Academy's net assets for fiscal year 2011 compared to fiscal year 2010:

**Table 1
Net Assets**

Assets:	2011	2010
Current Assets	\$141,158	\$103,633
Capital Assets, Net	40,867	44,682
Total Assets	182,025	148,315
Liabilities:		
Current Liabilities	176,194	122,768
Total Liabilities	176,194	122,768
Net Assets:		
Invested in Capital Assets	40,867	44,682
Restricted	49,963	16,813
Unrestricted	(84,999)	(35,948)
Total Net Assets	\$ 5,831	\$ 25,547

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2011, the Academy's net assets totaled \$5,831. Both current assets and current liabilities increased during fiscal year 2011. Cash and cash equivalents increased \$56,669 in fiscal year 2011.

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 57.63 percent of total operating and non-operating revenues during fiscal year 2011.

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**

	2011	2010
Operating Revenue:		
State foundation	\$ 879,765	\$ 912,732
Food Services	2,786	3,143
Classroom fees	431	
Other Operating Revenues	42,873	5,033
Total Operating Revenues	925,855	920,908
Operating Expenses:		
Salaries and Wages	768,286	731,217
Fringe Benefits	316,193	199,392
Purchased Services	358,708	412,071
Materials and Supplies	65,757	108,734
Depreciation Expense	10,815	8,565
Other Operating Expense	26,402	21,686
Total Operating Expenses	1,546,161	1,481,665

**QUEST ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

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

	2011	2010
Non-Operating Revenues and (Expenses)		
Federal and State grants	583,147	537,621
Contributions and Donations	17,443	
Interest Income		12
Interest and Fiscal Charges		(56)
Total Non-Operating Revenues and (Expenses)	600,590	537,577
Change in Net Assets	(19,716)	(23,180)
Net Assets at Beginning of Year	25,547	48,727
Net Assets at End of Year	\$ 5,831	\$ 25,547

Capital Assets

At June 30, 2011, The Academy had \$21,355 invested in furniture, fixtures, and equipment, net of accumulated depreciation and \$17,686 invested in buildings and improvements, net of accumulated depreciation and \$1,826 invested in leasehold improvements, net of accumulated depreciation. For more information on capital assets, see Note 6 to the basic financial statements.

Debt

At June 30, 2011, the Academy did not have any long-term obligations outstanding.

Current Financial Issues

The utilization of the Lucas County Educational Service Center as the Academy's fiscal agent greatly improves the internal control structure and the quality of its financial records. During the 2010-2011 fiscal school year, there were approximately 137 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 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. Richard Cox, Treasurer or Lamont Monford, Administrator of the Quest Academy Community School, 190 E. 8th Street, Lima, Ohio 45804.

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**QUEST ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

**STATEMENT OF NET ASSETS
AS OF JUNE 30, 2011**

Assets:

Current Assets:

Equity in pooled cash Cash and Cash Equivalents \$82,900

Receivables:

Intergovernmental 54,458

Prepayments 3,800

Total Current Assets 141,158

Non-Current Assets:

Capital Assets, Net of Accumulated Depreciation 40,867

Total Non-Current Assets 40,867

Total Assets 182,025

Liabilities:

Current Liabilities:

Accounts Payable 24,523

Compensated Absences Payable 2,299

Accrued Wages and Benefits 116,921

Due to Students 2,253

Intergovernmental Payable 7,022

Pension Obligation Payable 23,176

Total Current Liabilities 176,194

Net Assets:

Invested in Capital Assets, Net of Related Debt 40,867

Restricted for Locally funded programs 473

Restricted for State funded programs 2,475

Restricted for Federally funded programs 47,015

Unrestricted (deficit) (84,999)

Total Net Assets \$5,831

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, 2011**

Operating Revenues:	
State Foundation	\$879,765
Classroom Fees	431
Food Services	2,786
Other Operating Revenues	42,873
Total Operating Revenues	<u>925,855</u>
Operating Expenses:	
Salaries and Wages	768,286
Fringe Benefits	316,193
Purchased Services	358,708
Materials and Supplies	65,757
Depreciation	10,815
Other Operating Expenses	26,402
Total Operating Expenses	<u>1,546,161</u>
Operating Loss	(620,306)
Non-Operating Revenues and Expenses:	
Federal and State Operating Grants	583,147
Contributions and Donations	17,443
Total Non-Operating Revenues and (Expenses)	<u>600,590</u>
Change in Net Assets	(19,716)
Net Assets at Beginning of Year	<u>25,547</u>
Net Assets at End of Year	<u><u>\$5,831</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, 2011**

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities:

Cash Received from State Foundation	\$879,765
Cash Received from Classroom Fees	431
Cash Received from Food Service Operations	6,134
Cash Received from Other Operating Sources	42,873
Cash Payments for Salaries and Wages	(757,003)
Cash Payments for Fringe Benefits	(277,253)
Cash Payments for Contractual Services	(265,027)
Cash Payments for Materials and Supplies	(147,361)
Cash Payments for Other Expenses	(27,910)
Net Cash Used for Operating Activities	<u>(545,351)</u>

Cash Flows from Non-capital Financing Activities:

Cash Received from Operating Grants - Federal and State	584,577
Cash Received from Contributions and Donations	17,443
Net Cash Provided by Noncapital Financing Activities	<u>602,020</u>

Net Decrease in Cash and Cash Equivalents	<u>56,669</u>
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Cash and Cash Equivalents at Beginning of Year	<u>26,231</u>
Cash and Cash Equivalents at End of Year	<u><u>\$82,900</u></u>

Reconciliation of Operating Loss to Net Cash Used for Operating Activities:

Operating Loss	(\$620,306)
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Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:

Depreciation	10,815
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Changes in Assets and Liabilities:

Decrease in Intergovernmental Receivable	4,322
Decrease in Prepayments	13,392
Increase in Accounts Payable	11,973
Increase in Compensated Absences Payable	1,142
Increase in Accrued Wages and Benefits	32,658
Increase in Intergovernmental Payable	424
Increase in Pension Obligation Payable	5,208
(Decrease) in Due to Students	(657)
(Decrease) in Deferred Revenue	(4,322)
Total Adjustments	<u>74,955</u>

Net Cash Used for Operating Activities	<u><u>(\$545,351)</u></u>
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Non-Cash Transactions:

In 2011, the Academy purchased \$7,000 in capital assets on account.

See accompanying notes to the basic financial statements.

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**QUEST ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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 2011.

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 8 non-certified and 17 certificated full time teaching personnel who provide services to 137 students.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The 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 applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before 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 THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(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 on 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 statements 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 non-exchange 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.

**QUEST ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 2011 include: EMIS, OneNet, SchoolNet, American Recovery and Reinvestment Act (ARRA), Education Jobs, IDEA Part B, Title I, Title II-A, Title II-D, Title IV-A, 21st Century Grant, and the School Lunch and Breakfast Programs. Amounts received under the above named programs for fiscal year 2011 totaled \$583,147.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2011, 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 and fifteen-thousand dollars for improvement 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:

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

**QUEST ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Accrued Liabilities

The Academy has recognized certain expenses due but unpaid as of June 30, 2011. These expenses are reported as accrued liabilities in the accompanying financial statements, which include STRS Ohio and SERS employer's share of \$23,176, Medicare of \$1,267 and worker's compensation of \$2,134.

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. 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, 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, net of related debt consist of capital assets, net of accumulate 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 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 THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

3. ACCOUNTABILITY

Change in Accounting Principles

For fiscal year 2011, the Academy has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 59, "Financial Instruments Omnibus".

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types. The implementation of GASB Statement No. 54 did not have an effect on the financial statements of the Academy.

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 did not have an effect on the financial statements of the Academy.

4. 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 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;

**QUEST ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

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 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.

A. Deposits

At June 30, 2011, the carrying amount of the Academy's deposits was \$82,900. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2011, the Academy's entire bank balance of \$98,333 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 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.

All deposits are collateralized with eligible securities in amounts equal to at least 105 percent 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 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.

The Academy has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Academy to a successful claim by the Federal Deposit Insurance Corporation.

B. Investments

The Academy had no investments.

**QUEST ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

5. RECEIVABLES

Receivables at June 30, 2009, 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:	
Education Jobs	\$ 1,871
Title II-D	709
Title I	41,877
Title IV-A	336
21st Century	9,665
Total Intergovernmental Receivables	\$54,458

6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011, was as follows:

	Balance 06/30/10	Additions	Deductions	Balance 06/30/11
Capital Assets:				
Furniture, Fixtures, and Equipment	\$112,694	\$7,000		\$119,694
Building and Improvements	19,651			19,651
Leasehold Improvements	3,422			3,422
Total Capital Assets	135,767	7,000		142,767
Less: Accumulated Depreciation				
Furniture, Fixtures, and Equipment	(89,062)	(9,277)		(98,339)
Buildings and Improvements	(655)	(1,310)		(1,965)
Leasehold Improvements	(1,368)	(228)		(1,596)
Total Accumulated Depreciation	(91,085)	(10,815)		(101,900)
Total Capital Assets, Net of Accumulated Depreciation	\$ 44,682	(\$3,815)	\$0	\$ 40,867

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, 2011, 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 2010.

**QUEST ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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 entire monthly premiums for life insurance, 90% of the medical premiums and 10% of the dental and vision premiums.

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 defined 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 or by calling toll free (800) 878-5852. It is also posted on the School Employee Retirement System's web site, 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 2011, 11.81 percent of the annual covered salary was the portion used to fund pension obligations and death benefits. 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 and death benefits to SERS for the fiscal years ended June 30, 2011, 2010, and 2009 were \$21,345, \$22,988 and \$18,642, respectively; 88.69 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

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, under "Publications"

**QUEST ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

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 2011, 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, 2011, 2010, and 2009 were \$74,914, \$71,080, and \$64,596 respectively; 89.99 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009. Contributions to the DC and Combined Plans for fiscal year 2011 were \$5,215 made by the Academy and \$3,725 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, 2011, certain numbers 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 THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

9. POST-EMPLOYMENT BENEFITS

A. School Employee 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 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 2011 was \$96.40, 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, under "Media/Financial Reports".

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 2011, 1.43 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 2011, the actuarially determined amount was \$35,800.

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, 2011, 2010, and 2009 were \$5,690, \$3,921 and \$8,531, respectively; 88.69 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, 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, 2011, 2010, and 2009 were \$1,374, \$1,367 and \$1,538, respectively; 88.69 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

**QUEST ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

9. POST-EMPLOYMENT 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, under "Publications" 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 2011, 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, 2011, 2010 and 2009 were \$5,763, \$5,468 and \$4,969, respectively; 89.99 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

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, 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, 2010 and ending on June 30, 2011. The rent for the lease is \$36,000 annually, payable in equal monthly installments of \$3,000 each.

**QUEST ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

12. PURCHASED SERVICES

For the year ended June 30, 2011, purchased service expenses were payments for services rendered by various vendors, as follows:

Professional and Technical Services	\$ 82,187
Property Services	149,784
Travel Mileage/Meeting Expense	15,650
Communications	13,272
Utilities	1,786
Contracted Craft or Trade Services	94,554
Transportation Fees	<u>1,475</u>
Total Purchased Services	<u><u>\$358,708</u></u>

13. FISCAL AGENT

The Academy entered into a service agreement as part of its Sponsorship contract with the Treasurer of the Lucas County Educational Service Center to serve as the Chief Fiscal Officer of the Academy. As part of this agreement, the Academy shall compensate the Lucas County Educational Service Center two percent of the per pupil allotment paid to the Academy from the State of Ohio. A total contract payment of \$24,904 was paid during the fiscal year, and an amount of \$2,722 was accrued as a liability for the year ended June 30, 2011.

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

- Maintain custody of all funds received by the Academy in segregated accounts separate from the Sponsor or any other Community School's funds;
- Maintain all books and accounts of the Academy;
- Maintain all financial records of the Academy and follow procedures for receiving and expending state funds, which procedures shall include that the 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 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.

**QUEST ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

14. RELATED PARTIES

The Executive Administrator (Superintendent) for the Academy is also the minister of the Philippian Missionary Baptist Church. During the year ended 2011, the Academy leased classroom space from the church and also paid the maintenance costs. (See Note 11)

On November 8, 2010 the Philippian Missionary Baptist Church loaned Quest Academy \$8,500. The Academy repaid the \$8,500 to the Church during the fiscal year.

15. CONTINGENCIES

A. Grants

The Academy received financial assistance from 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. 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, 2011.

B. Litigation

The Academy is not involved in any litigation that, in the opinion of management would have material effect on the financial statements.

C. 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. The Academy anticipates no adjustments to State funding for fiscal year 2012, as a result of the reviews which have yet to be completed.

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**QUEST ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
United States Department of Agriculture					
(Passed through Ohio Department of Education)					
Child Nutrition Cluster:					
Non-Cash Assistance (Food Distribution)					
National School Lunch Program	10.555		\$498		\$498
Cash Assistance:					
School Breakfast Program	10.553	\$23,367		\$23,367	
National School Lunch Program	10.555	57,534		57,534	
Total Nutrition Cluster		<u>80,901</u>	<u>498</u>	<u>80,901</u>	<u>498</u>
Total United States Department of Agriculture		<u>80,901</u>	<u>498</u>	<u>80,901</u>	<u>498</u>
United States Department of Education					
(Passed through Ohio Department of Education)					
Title I Part A Cluster:					
Title I Grants to Local Educational Agencies	84.010	101,860		89,070	
ARRA Title I Grants to Local Educational Agencies, Recovery Act	84.389	46,260		43,572	
Total Title I Part A Cluster		<u>148,120</u>		<u>132,642</u>	
Special Education Cluster:					
Special Education Grants to States	84.027	28,150		28,150	
ARRA Special Education Grants to States, Recovery Act	84.391	7,413		8,311	
Total Special Education Cluster		<u>35,563</u>		<u>36,461</u>	
Safe and Drug-Free Schools and Communities State Grants	84.186			179	
Educational Technology State Grants	84.318	450		450	
School Improvement Grant	84.377	3,141		3,141	
Twenty-First Century Community Learning Centers	84.287	160,980		137,213	
Improving Teacher Quality State Grants	84.367	17,551		15,304	
Education Jobs Fund	84.410	53,423		42,246	
ARRA State Fiscal Stabilization Fund (SFSF)					
Education State Grants, Recovery Act	84.394	75,020		75,020	
Total United States Department of Education		<u>494,248</u>		<u>442,656</u>	
Total Federal Financial Assistance		<u>\$575,149</u>	<u>\$498</u>	<u>523,557</u>	<u>\$498</u>

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

**QUEST ACADEMY
ALLEN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) reports Quest Academy's (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 – FOOD DONATION PROGRAM

The Academy reports commodities consumed on the Schedule at the fair value. The Academy allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.

NOTE D - 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 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 fiscal year ended June 30, 2011, and have issued our report thereon dated February 27, 2012. 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 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 matters we must report under *Government Auditing Standards*.

We did note certain matters not requiring inclusion in this report that reported to the Academy's management in a separate letter dated February 27, 2012.

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 "D" and "Y".

Dave Yost
Auditor of State

February 27, 2012



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 East Eighth Street
Lima, Ohio 45804

To the Governing Board:

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 of Quest Academy Community School's major federal programs for the fiscal year ended June 30, 2011. 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.

Our compliance audit followed 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*. These 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 Government's compliance with these 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 Government's compliance with these 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, 2011.

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 internal control over compliance. Accordingly, we have not opined on the effectiveness of the Academy's internal control over compliance.

**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 noted matters involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the Academy's management in a separate letter dated February 27, 2012.

We intend this report solely for the information and use of the management, the Governing Board, 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.



Dave Yost
Auditor of State

February 27, 2012

**QUEST ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2011**

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 Part A 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 st Century Community Learning Centers 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 Procedure

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

To the Governing Board:

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

1. We noted the Board did not amend its anti-harassment policy to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

Ohio Rev. Code Section 3313.666 required the Board to amend its definition by September 28, 2010.

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 the Academy's sponsor and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

February 27, 2012 One First National Plaza, 130 W. Second St., Suite 2040, Dayton, Ohio 45402
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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 10, 2012