QUEST ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY

REGULAR AUDIT

FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

Dave Yost • Auditor of State

QUEST ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY

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INDEPENDENT AUDITOR'S REPORT

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

To the Governing Board:

Report on the Financial Statements

We have audited the accompanying financial statements of Quest Academy Community School, Allen County, Ohio (the Academy), as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Academy's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Academy's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Quest Academy Community School, Allen County, as of June 30, 2013 and 2012, and the changes in its financial position and its cash flows thereof for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 16, the Academy was notified by the Ohio Department of Education that the Academy must close by June 30, 2013 due to continued poor academic performance.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2014, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.

Dave Yost
Auditor of State

Columbus, Ohio

February 6, 2014

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, 2013. 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 2013 are as follows:

- In total, net position was $43,838 at June 30, 2013.

- The Academy had operating revenues of $753,773 and operating expenses of $988,340 for fiscal year 2013. The Academy also received $229,094 in Federal and State grants during fiscal year 2013. The total change in net position for the fiscal year was a decrease of $5,473.

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 s*tatement of net position* and s*tatement of revenues, expenses and changes in net position* 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 Position, Statement of Revenues, Expenses, and Changes in Net Position and the Statement of Cash Flows

These documents look at all financial transactions and ask the question, "How did we do financially during 2013?" The statement of net position and the statement of revenues, expenses and changes in net position answer this question. These statements include *all assets and deferred outflows, liabilities and deferred inflows, 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 position* and changes in the position. This change in net position is important because it tells the reader that, for the Academy as a whole, the *financial position* of the Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 7 and 8 of this report.

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

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

Table 1 provides a summary of the Academy's net position for fiscal year 2013 compared to fiscal year 2012:

Table 1
Net Position

	2013	2012
Assets:		
Current assets	$57,013	$116,259
Capital assets, net	23,440	29,804
Total assets	80,453	146,063
Liabilities:		
Current liabilities	36,615	93,345
Non-current liabilities		3,407
Total liabilities	36,615	96,752
Net Position:		
Invested in capital assets	23,440	29,804
Restricted		15,628
Unrestricted	20,398	3,879
Total net position	$43,838	$ 49,311

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2013, the Academy's net position totaled $43,838. Both current assets and current liabilities decreased during fiscal year 2013.

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 76.45% of total operating and non-operating revenues during fiscal year 2013.

The statement of revenues, expenses, and changes in net position 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 Position

	2013	2012
Operating Revenues:		
State foundation	$751,380	$ 772,508
Food services	85	531
Other operating revenue	2,308	4,584
Total operating revenue	753,773	777,623
Operating Expenses:		
Salaries and wages	527,405	559,554
Fringe benefits	134,114	236,229
Purchased services	264,675	211,358
Materials and supplies	12,514	10,165
Depreciation	6,364	11,063
Other	43,268	18,358
Total operating expenses	988,340	1,046,727

(Continued)

Table 2
Change in Net Position
(Continued)

	2013	2012
Non-operating revenues:		
Federal and State grants	229,094	298,022
Contributions and donations		14,562
Total non-operating revenues	229,094	312,584
Change in net position	(5,473)	43,480
Net position at beginning of year	49,311	5,831
Net position at end of year	$ 43,838	$ 49,311

Capital Assets

At June 30, 2013, the Academy had $7,004 invested in furniture, fixtures and equipment, net of accumulated depreciation, $15,066 invested in buildings and improvements, net of accumulated depreciation and $1,370 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, 2013, the Academy did not have any long-term obligations outstanding.

Current Financial Related Activities

The Academy ceased operations as of June 30, 2013.

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. Richard Cox, Treasurer 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 POSITION
JUNE 30, 2013

Assets:	
Current assets:	
Equity in pooled cash and cash equivalents	$44,108
Intergovernmental Receivable	12,905
Total current assets	57,013
Non-current assets:	
Depreciable capital assets, net	23,440
Total non-current assets	23,440
Total assets	80,453
Liabilities:	
Current liabilities:	
Accounts payable	32,855
Intergovernmental payable	3,760
Total liabilities	36,615
Net position:	
Investment in capital assets	23,440
Unrestricted	20,398
Total net position	$43,838

See accompanying notes to the basic financial statements.

QUEST ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Operating revenues:	
Foundation revenue	$751,380
Food services	85
Other	2,308
Total operating revenues	753,773
Operating expenses:	
Salaries and wages	527,405
Fringe benefits	134,114
Purchased services	264,675
Materials and supplies	12,514
Other	43,268
Depreciation	6,364
Total operating expenses	988,340
Operating loss	(234,567)
Non-operating revenues:	
Federal and State grants	229,094
Total non-operating revenues	229,094
Change in net position	(5,473)
Net position at beginning of year	49,311
Net position at end of year	$43,838

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, 2013

Cash flows from operating activities:	
Cash received from state foundation	$753,233
Cash received from food service operations	110
Cash received from other operations	2,308
Cash payments for salaries and wages	(598,627)
Cash payments for fringe benefits	(161,050)
Cash payments for contractual services	(233,369)
Cash payments for materials and supplies	(14,852)
Cash payments for other expenses	(43,268)
Net cash used in operating activities	(295,515)
Cash flows from non-capital financing activities:	
Cash received from Federal and State grants	243,319
Net cash provided by noncapital financing activities	243,319
Net decrease in cash and cash cash equivalents	(52,196)
Cash and cash equivalents at beginning of year	96,304
Cash and cash equivalents at end of year	44,108
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	(234,567)
Adjustments:	
Depreciation	6,364
Changes in assets and liabilities:	
Decrease in accounts receivable	153
(Increase) in intergovernmental receivable	(10,763)
Decrease in prepayments	5,774
Increase in accounts payable	30,388
(Decrease) in accrued wages and benefits	(68,921)
Increase in intergovernmental payable	119
(Decrease) in compensated absences payable	(11,818)
(Decrease) in pension obligation payable	(9,877)
(Decrease) in due to students	(2,367)
Net cash used in operating activities	($295,515)

See accompanying notes to the basic financial statements.

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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 2013.

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 Educational Service Center of Lake Erie West (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. This contract was renewed for the 2013 school year.

The Academy operates under the direction of five-member Governing Board. The Governing Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, State-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards and qualifications of teachers. The Governing Board controls the Academy's one instructional/support facility staffed by 8 non-certified and 9 certified full-time teaching personnel who provide services to 118 students.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The 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 more significant of the Academy's policies are described below.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

The Academy's basic financial statements consist of a statement of net position, a statement of revenues, expenses and changes in net position, 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 position, 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 position. The statement of revenues, expenses and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net position. 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 Section 5705, except Ohio Revised Code Section 33.14.03(A)(11)(d) which requires community schools to prepare 5 year forecasts in accordance with Ohio Revised Code Section 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 Educational Service Center of Lake Erie West. 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 position, investments with original maturities of three months or less at the time they are purchased by the Academy are considered to be cash equivalents.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Intergovernmental Revenues

The Academy currently participates in the State Foundation Basic Aid Program and the State Special Education Program. Revenue from these programs is 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 2013 include: IDEA Part B, Title I, Title I-A, Title II-A, Title II-D and the Federal and State School Lunch and Breakfast Programs. Amounts received under the above name programs for fiscal year 2013 totaled $229,094.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2013, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

H. Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of two-thousand dollars for tangible assets. The Academy does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

Description	Estimated Lives
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, 2013. These expenses are reported as accrued liabilities in the accompanying financial statements, which includes Workers' Compensation of $1,421, amounts due to the Philippian Missionary Baptist Church for maintenance of $31,499, unused grant monies of $2,339, and other liabilities of $1,356.

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.

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 or retirement.

Because the Academy ceased operations June 30, 2013, the Academy made all severance and personal leave payouts prior to June 30, 2013. There are no outstanding liabilities for sick or vacation amounts.

K. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component “net investment in capital assets,” consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. The Academy does not have any outstanding debt. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Academy 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 position is 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.

3. ACCOUNTABILITY

Change in Accounting Principles

For fiscal year 2013, the Academy has implemented GASB Statement No. 60, "*Accounting and Financial Reporting for Service Concession Arrangements*", GASB Statement No. 61, "*The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*", GASB Statement No. 62, "*Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements*", GASB Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*", GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities*", and GASB Statement No. 66, *"Technical Corrections-2012".*

GASB Statement No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. An SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The implementation of GASB Statement No. 60 did not have an effect on the financial statements of the Academy.

GASB Statement No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. The Statement amends the criteria for reporting component units as if they were part of the primary government in certain circumstances. Finally, the Statement also clarifies the reporting of equity interests in legally separate organizations. The implementation of GASB Statement No. 61 did not have an effect on the financial statements of the Academy.

GASB Statement No. 62 codifies accounting and financial reporting guidance contained in pre-November 30, 1989 FASB and AICPA pronouncements in an effort to codify all sources of GAAP for State and local governments so that they derive from a single source. The implementation of GASB Statement No. 62 did not have an effect on the financial statements of the Academy.

GASB Statement No. 63 provides financial and reporting guidance for *deferred outflows of resources* and *deferred inflows of resources* which are financial statement elements that are distinct from assets and liabilities. GASB Statement No. 63 standardizes the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's *net position*. The implementation of GASB Statement No. 63 has changed the presentation of the Academy's financial statements to incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources.

GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as *deferred outflows of resources* or *deferred inflows of resources*, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 also provides other financial reporting guidance related to the impact of the financial statement elements *deferred outflows of resources* and *deferred inflows of resources*, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. The implementation of GASB Statement No. 65 did not have an effect on the financial statements of the Academy.

GASB Statement No. 66 enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The implementation of GASB Statement No. 66 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 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.

4. DEPOSITS AND INVESTMENTS (Continued)

A. Deposits

At June 30, 2013, the carrying amount of the Academy's deposits was $44,108. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2013, the Academy's entire bank balance of $66,502 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 FDIC.

B. Investments

The Academy had no investments.

5. RECEIVABLES

Receivables at June 30, 2013, consisted of intergovernmental receivables arising from grants and entitlements and accounts receivable. All receivables are considered collectable in full. A summary of the principal items of receivables follows:

Receivables:	**Amount**
Intergovernmental:	
Ohio Bureau of Worker's Compensation	$ 1,768
Federal Food Service	289
STRS Foundation/SERS Surcharge	10,848
Total intergovernmental receivables	$12,905

6. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	Balance 6/30/2012	Additions	Deductions	Balance 6/30/2013
Capital assets:				
Furniture, Fixtures and Equipment	$119,694			$119,694
Building and improvements	19,651			19,651
Leasehold Improvements	3,422			3,422
Total Capital Assets	142,767			142,767
Less: Accumulated Depreciation				
Furniture, Fixtures and Equipment	(107,864)	($4,826)		(112,690)
Buildings and improvements	(3,275)	(1,310)		(4,585)
Leasehold Improvements	(1,824)	(228)		(2,052)
Total Accumulated Depreciation	(112,963)	(6,364)		(119,327)
Total Capital Assets, Net of Accumulated Depreciation	$ 29,804	($6,364)	$0	$ 23,440

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, 2013, 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 2012.

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, 80% of the medical premiums and 10% of the dental and vision premiums.

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, under *"Employers/Audit Resources"*.

Funding Policy - Plan members are required to contribute 10% of their annual covered salary and the Academy is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ending June 30, 2013, the allocation to pension and death benefits is 13.10%. The remaining .90% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The School District's contributions to SERS for the years ended June 30, 2013, 2012, and 2011 were $19,762, $18,955 and $21,345, respectively, which equaled the required contributions each year.

B. State Teachers Retirement System of Ohio

State Teachers Retirement System of Ohio (STRS Ohio) is a cost-sharing, multiple-employer public employee retirement system.

STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, community school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

Plan Options - New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members may transfer to a different STRS Ohio retirement plan during their fifth year of membership. Eligible members who do not make a choice during the reselection period will permanently remain in their current plan.

8. PENSION PLANS (Continued)

DB Plan Benefits - Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until I 00% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits - Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. 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. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member's account balance.

Combined Plan Benefits -Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio's public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

Benefits were increased by 3% of the original base amount for DB Plan participants.

8. PENSION PLANS (Continued)

The DB and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio Jaw, health care benefits are not guaranteed.

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 members who die before retirement may qualify for survivor benefits. A death benefit of $1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to $2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 14% for members and 14% for employers.

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2013, were 10% of covered payroll for members and 14% for employers. The Academy’s required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2013, 2012 and 2011 were $58,210, $57,280 and $74,914, respectively; 100 percent has been contributed for fiscal years 2013, 2012 and 2011.

Additional information or copies of STRS Ohio's 2013 Comprehensive Annual Financial Report can be requested by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling toll-free 1-888-227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

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, 2013, certain members of the Board have elected Social Security. The Academy’s liability is 6.2 percent of wages paid.

9. POST-EMPLOYMENT BENEFITS

A. School Employees Retirement System

Post-employment Benefits

In addition to a cost-sharing multiple-employer defined benefit pension plan the School Employees Retirement System of Ohio (SERS) administers two postemployment benefit plans.

Medicare Part B Plan

The Medicare Part B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. 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 monthly premium for calendar year 2013 was $104.90 for most participants, but could be as high as $335.70 per month depending on their income. SERS’ reimbursement to retirees was $45.50.

9. POST-EMPLOYMENT BENEFITS (Continued)

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2013, the actuarially required allocation is .74%. The Academy contributions for the years ended June 30, 2013, 2012 and 2011 were $1,116, $1,119 and $1,374, respectively, which equaled the required contributions each year.

Health Care Plan

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, 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 ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the year ended June 30, 2013, the health care allocation is .16%. 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% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS covered payroll for the health care surcharge. For fiscal year 2013, the minimum compensation level was established at $20,525. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The Academy contributions assigned to health care for the years ended June 30, 2013, 2012, and 2011 were $2,841, $3,684 and $5,690, respectively.

The SERS 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 financial reports of SERS' Health Care and Medicare B plans are included in its Comprehensive Annual Financial Report. The report can be obtained on SERS' website at www.ohsers.org under **Employers/Audit Resources**.

B. State Teachers Retirement System of Ohio

Plan Description

STRS Ohio administers a pension plan that is comprised of: a Defined Benefit Plan, a self-directed Defined Contribution Plan, and a Combined Plan that is a hybrid of the Defined Benefit Plan and the Defined Contribution Plan.

9. POST-EMPLOYMENT BENEFITS (Continued)

Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums.

Pursuant to Chapter 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting www.strsoh.org or by requesting a copy by calling toll-free 1-888-227-7877.

Funding Policy

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contribution rate, 1% of covered payroll was allocated to post-employment health care for the years ended June 30, 2013, 2012 and 2011. The 14% employer contribution rate is the maximum rate established under Ohio law. The Academy’s contributions for health care for the fiscal years ended June 30, 2013, 2012 and 2011 were $4,478, $4,406 and $5,763, respectively; 100 percent has been contributed for fiscal years 2013, 2012 and 2011.

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. The Board made a motion to pay severance payments in place of the personal days payoff. All severance payments were made prior to June 30, 2013.

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. All severance liabilities were paid prior to June 30, 2013.

11. OPERATING LEASE

In a prior year, the Academy entered into a lease for classroom facilities with the Philippian Missionary Baptist Church (“Church”), located at 109 East 8th Street, Lima, Ohio 45804. The term of the lease is for one year commencing on July 1, 2012 and ending on June 30, 2013. During fiscal year 2013, the Academy made $45,000 in rent payments and $31,499 in maintenance payments to the Church.

12. PURCHASED SERVICES

For the year ended June 30, 2013, purchased service expenses were payments for services rendered by various vendors, as follows:

Professional and Technical Services	$ 79,380
Property Services	131,722
Travel Mileage/Meeting Expense	5,763
Communications	7,673
Utilities	1,011
Contracted Craft or Trade Services	38,931
Pupil transportation services	195
Total Purchased Services	$264,675

13. FISCAL AGENT

The Academy entered into a service agreement as part of its Sponsorship contract with the Treasurer of the Educational Service Center of Lake Erie West to serve as the Chief Fiscal Officer of the Academy. As part of this agreement, the Academy shall compensate the Educational Service Center of Lake Erie West two percent of the per pupil allotment paid to the Academy from the State of Ohio. A total contract payment of $18,229 was paid during the fiscal year along with a $15,000 payment to cover any legal and professional fees related to closure of the Academy.

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

- Maintain custody of all funds received by the Academy in segregated accounts separate from the Sponsor or any other Community School's funds;
- Maintain all books and accounts of the Academy;
- Maintain all financial records of the Academy and follow procedures for receiving and expending State funds, which procedures shall include that the Treasurer shall disburse money only upon receipt of a voucher signed by the Chief Administrative Officer of the Academy or that Officer's designee;
- Assist the Academy in meeting all financial reporting requirements established by the Auditor of 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.

14. RELATED PARTIES

The Executive Administrator (Superintendent) for the Academy is also the minister of the Philippian Missionary Baptist Church. During the fiscal year ended 2013, the Academy leased classroom space from the church and also paid the maintenance costs (See Note 11).

15. CONTINGENT LIABILITIES

A. Litigation

There are currently no matters in litigation with the Academy as defendant.

B. 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 does not anticipate any significant adjustments to State funding for fiscal year 2013 as a result of the reviews which have yet to be completed.

16. CEASED OPERATIONS

The Academy was notified by the Ohio Department of Education (“ODE”) that the Academy must close by June 30, 2013 due to continued poor academic performance. ODE’s determination was based on the specific performance criteria described in Ohio Revised Code Section 3314.35 (“ORC”) as revised by the Ohio General Assembly effective July 17, 2009. The Academy ceased operations on June 30, 2013.

17. SUBSEQUENT EVENTS

The Academy has followed the closing procedures prescribed by ODE. These procedures included, among others, official notification to ODE, retirement systems, the students and the community, disposition of assets and the preparation of financial statements.

As of the date of the report, the Academy had a cash balance of $5,861. All payables and receivables outstanding at June 30, 2013 have been paid and received, except $34,439 related to unemployment compensation and the final audit costs that have yet to be billed. Total expenditures and cash receipts subsequent to year end through the report date were $53,571 and $15,324, respectively. Once all liabilities are liquidated, any residual cash balance will be returned to ODE as required by ORC 3313.074.

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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, 2012. 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 2012 are as follows:

- In total, net assets were $49,311 at June 30, 2012.

- The Academy had operating revenues of $777,623 and operating expenses of $1,046,727 for fiscal year 2012. The Academy also received $298,022 in Federal and State grants and $14,562 in contributions and donations during fiscal year 2012. The total change in net assets for the fiscal year was an increase of $43,480.

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 s*tatement of net assets* and s*tatement 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 2012?" 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 31 and 32 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 33 of this report.

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

Table 1 provides a summary of the Academy's net assets for fiscal year 2012 compared to fiscal year 2011:

Table 1
Net Assets

	2012	2011
Assets:		
Current assets	$116,259	$141,158
Capital assets, net	29,804	40,867
Total assets	146,063	182,025
Liabilities:		
Current liabilities	93,345	176,194
Non-current liabilities	3,407	
Total liabilities	96,752	176,194
Net Assets:		
Invested in capital assets	29,804	40,867
Restricted	15,628	49,963
Unrestricted (deficit)	3,879	(84,999)
Total net assets	$ 49,311	$ 5,831

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2012, the Academy's net assets totaled $49,311. Both current assets and current liabilities decreased during fiscal year 2012. Intergovernmental receivables decreased $40,430 from fiscal year 2011 to fiscal year 2012 due to the timing of the receipt of Federal grants. The decrease in current liabilities is primarily due to the timing of payments of wages and benefit obligations, including insurance and pension obligations.

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 70.86% of total operating and non-operating revenues during fiscal year 2012.

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

	2012	2011
Operating Revenues:		
State foundation	$772,508	$879,765
Food services	531	2,786
Classroom fees		431
Other operating revenue	4,584	42,873
Total operating revenue	777,623	925,855
Operating Expenses:		
Salaries and wages	559,554	768,286
Fringe benefits	236,229	316,193
Purchased services	211,358	358,708
Materials and supplies	10,165	65,757
Depreciation	11,063	10,815
Other	18,358	26,402
Total operating expenses	1,046,727	1,546,161

(Continued)

Table 2
Change in Net Assets
(Continued)

	2012	2011
Non-operating revenues:		
Federal and State grants	298,022	583,147
Contributions and donations	14,562	17,443
Total non-operating revenues	312,584	600,590
Change in net assets	43,480	(19,716)
Net assets at beginning of year	5,831	25,547
Net assets at end of year	$ 49,311	$ 5,831

Capital Assets

At June 30, 2012, the Academy had $11,830 invested in furniture, fixtures and equipment, net of accumulated depreciation, $16,376 invested in buildings and improvements, net of accumulated depreciation and $1,598 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, 2012, the Academy did not have any long-term obligations outstanding.

Current Financial Related Activities

The utilization of the Educational Service Center of Lake Erie West as the Academy's fiscal agent greatly improves the internal control structure and quality of its financial records. During the 2011-2012 school year, there were approximately 109 students enrolled in the Academy.

In order to continually provide learning opportunities to the Academy's students, the Academy will apply resources to best meet the needs of its students. It is the intent of the Academy to apply for State and Federal funds that are made available to finance 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. Richard Cox, Treasurer 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
JUNE 30, 2012

Assets:	
Current assets:	
Equity in pooled cash and cash equivalents	$96,304
Receivables:	
Accounts	153
Intergovernmental	14,028
Prepayments	5,774
Total current assets	116,259
Non-current assets:	
Depreciable capital assets, net	29,804
Total non-current assets	29,804
Total assets	146,063
Liabilities:	
Current liabilities:	
Accounts payable	128
Compensated absences - due within one year	8,411
Accrued wages and benefits	68,921
Due to students	2,367
Intergovernmental payable	3,641
Pension obligation payable	9,877
Total current liabilities	93,345
Non-current liabilities:	
Compensated absences - due in more than one year	3,407
Total non-current liabilities	3,407
Total liabilities	96,752
Net assets:	
Invested in capital assets	29,804
Restricted for:	
Locally funded programs	1,290
State funded programs	840
Federally funded programs	13,498
Unrestricted	3,879
Total net assets	$49,311

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, 2012

Operating revenues:	
Foundation revenue	$772,508
Food services	531
Other	4,584
Total operating revenues	777,623
Operating expenses:	
Salaries and wages	559,554
Fringe benefits	236,229
Purchased services	211,358
Materials and supplies	10,165
Depreciation	11,063
Other	18,358
Total operating expenses	1,046,727
Operating loss	(269,104)
Non-operating revenues:	
Federal and State grants	298,022
Contributions and donations	14,562
Total non-operating revenues	312,584
Change in net assets	43,480
Net assets at beginning of year	5,831
Net assets at end of year	$49,311

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, 2012

Cash flows from operating activities:	
Cash received from State foundation	$770,655
Cash received from food service operations	531
Cash received from other operations	7,117
Cash payments for salaries and wages	(589,871)
Cash payments for fringe benefits	(265,356)
Cash payments for contractual services	(212,936)
Cash payments for materials and supplies	(21,561)
Cash payments for other expenses	(18,358)
Net cash used in operating activities	(329,779)
Cash flows from non-capital financing activities:	
Cash received from Federal and State grants	340,305
Cash received from contributions and donations	9,878
Net cash provided by non-capital financing activities	350,183
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(7,000)
Net cash used in capital and related financing activities	(7,000)
Net increase in cash and cash equivalents	13,404
Cash and cash equivalents at beginning of year	82,900
Cash and cash equivalents at end of year	96,304
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	(269,104)
Adjustments:	
Depreciation	11,063
In-kind donations	4,684
Changes in assets and liabilities:	
(Increase) in accounts receivable	(153)
(Increase) in intergovernmental receivable	(1,853)
(Increase) in prepayments	(1,974)
(Decrease) in accounts payable	(17,395)
(Decrease) in accrued wages and benefits	(48,000)
(Decrease) in intergovernmental payable	(3,381)
Increase in compensated absences payable	9,519
(Decrease) in pension obligation payable	(13,299)
Increase in due to students	114
Net cash used in operating activities	($329,779)

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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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 learing 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 2012.

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 Educational Service Center of Lake Erie West (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. This contract was renewed for the 2012 school year.

The Academy operates under the direction of five-member Governing Board. The Governing Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, State-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards and qualifications of teachers. The Governing Board controls the Academy's one instructional/support facility staffed by 9 non-certified and 10 certified full-time teaching personnel who provide services to 109 students.

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

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 Section 5705, except Ohio Revised Code Section 33.14.03(A)(11)(d) which requires community schools to prepare 5 year forecasts in accordance with Ohio Revised Code Section 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 Educational Service Center of Lake Erie West. All cash received by the fiscal agent is maintained in separate bank accounts in the Academy's name. Monies for the Academy are maintained in these accounts or temporarily used to purchase short-term investments. For the purposes of the statement of cash flows and for presentation on the statement of net assets, investments with original maturities of three months or less at the time they are purchased by the Academy are considered to be cash equivalents.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Intergovernmental Revenues

The Academy currently participates in the State Foundation Basic Aid Program and the State Special Education Program. 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 2012 include: Ohio K-12 Network, American Recovery and Reinvestment Act (ARRA), Education Jobs, IDEA Part B, Title I, Title I-A, Title II-A, Title II-D, 21st Century Grant and the Federal and State School Lunch and Breakfast Programs. Amounts received under the above name programs for fiscal year 2012 totaled $298,022.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2012, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

H. Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of two-thousand dollars for tangible assets. The Academy does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

Description	Estimated Lives
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, 2012. These expenses are reported as accrued liabilities in the accompanying financial statements, which includes STRS Ohio and SERS employer's share of $9,877, Medicare of $861 and Workers' Compensation of $1,413.

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 at the per diem rate at the time or retirement.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", an accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) benefits. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2012, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future, all employees at least 60 years of age with 5 years of service, at least 55 years of age with 25 years of service or any age with at least 10 years of service, were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for sick leave payments has been calculated using pay rates in effect at June 30, 2012 and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, consist of capital assets, net of accumulated depreciation.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

3. ACCOUNTABILITY

Change in Accounting Principles

For fiscal year 2012, the Academy has implemented GASB Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions - an Amendment of GASB Statement No. 53".

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The implementation of GASB Statement No. 57 did not have an effect on the financial statements of the Academy.

GASB Statement No. 64 clarifies the circumstances in which a hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of GASB Statement No. 64 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 may be deposited or invested in the following securities:

4. DEPOSITS AND INVESTMENTS (Continued)

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.

A. Deposits

At June 30, 2012, the carrying amount of the Academy's deposits was $96,304. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2012, the Academy's entire bank balance of $104,841 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.

4. DEPOSITS AND INVESTMENTS (Continued)

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

B. Investments

The Academy had no investments.

5. RECEIVABLES

Receivables at June 30, 2012, consisted of intergovernmental receivables arising from grants and entitlements and accounts receivable. All receivables are considered collectable in full. A summary of the principal items of receivables follows:

Receivables:	Amount
Intergovernmental:	
Title I	$12,175
Ohio Department of Education	1,853
Total intergovernmental receivables	$14,028

6. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Balance 6/30/2011	Additions	Deductions	Balance 6/30/2012
Capital assets:				
Furniture, Fixtures and Equipment	$119,694			$119,694
Building and improvements	19,651			19,651
Leasehold Improvements	3,422			3,422
Total Capital Assets	142,767			142,767
Less: Accumulated Depreciation:				
Furniture, Fixtures and Equipment	(98,339)	($ 9,525)		(107,864)
Buildings and improvements	(1,965)	(1,310)		(3,275)
Leasehold Improvements	(1,596)	(228)		(1,824)
Total Accumulated Depreciation	(101,900)	(11,063)		(112,963)
Total Capital Assets, Net of Accumulated Depreciation	$ 40,867	($11,063)	$0	$ 29,804

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, 2012, 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 2011.

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 and 10% of the dental and vision premiums. The medical premiums were paid by the Academy at various rates throughout the fiscal year: 90% through November 2011, 85% from December 2011 through April 2012, and 80% from May 2012 through the end of the fiscal year.

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, under *"Employers/Audit Resources"*.

8. PENSION PLANS (Continued)

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 2012, 12.65 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The remaining 1.30 percent of the 14 percent employer contribution rate is allocated to the health Care and Medicare B Funds. 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, 2012, 2011 and 2010 were $18,955, $21,345 and $22,988, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

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 website at www.strsoh.org, under *"Publications".*

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.

8. PENSION PLANS (Continued)

Funding Policy - For fiscal year 2012, 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, 2012, 2011 and 2010 were $57,280, $74,914 and $71,080, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010. Contributions to the DC and Combined Plans for fiscal year 2012 were $4,715 made by the Academy and $3,368 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, 2012, certain members of the Governing Board have elected Social Security. The Academy's liability is 6.2 percent of wages paid.

9. POST-EMPLOYMENT 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 Section 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 2012 was $99.90 for most participants, but could be as high as $319.70 per month depending on their income and the 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 *"Employers/Audit Resources"*.

9. POST-EMPLOYMENT BENEFITS (Continued)

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2012, 0.55 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 2012, 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, 2012, 2011 and 2010 were $3,684, $5,690 and $3,921, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The Academy's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were $1,119, $1,374 and $1,367, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

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 2012, 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, 2012, 2011 and 2010 were $4,406, $5,763 and $5,468, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

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 LEASE

In a prior year, the Academy entered into a lease for classroom facilities with the Philippian Missionary Baptist Church ("Church"), located at 109 East 8th Street, Lima, Ohio 45804. The term of the lease is for one year commencing on July 1, 2011 and ending on June 30, 2012. During fiscal year 2012, the Academy made $21,000 in rent payments to the Church. In addition, the Academy gave the Church computer equipment valued at $4,316 in exchange for 3 months of rent payments valued at $9,000. The Academy recorded contribution and donation revenue and purchased services expense of $4,684 for this non-monetary exchange. The Church also waived the June 2012 rent payment.

12. PURCHASED SERVICES

For the year ended June 30, 2012, purchased service expenses were payments for services rendered by various vendors, as follows:

Professional and Technical Services	$70,334
Property Services	80,206
Travel Mileage/Meeting Expense	6,163
Communications	6,905
Utilities	1,352
Contracted Craft or Trade Services	45,711
Pupil transportation services	299
Other	388
Total Purchased Services	$211,358

13. FISCAL AGENT

The Academy entered into a service agreement as part of its Sponsorship contract with the Treasurer of the Educational Service Center of Lake Erie West to serve as the Chief Fiscal Officer of the Academy. As part of this agreement, the Academy shall compensate the Educational Service Center of Lake Erie West two percent of the per pupil allotment paid to the Academy from the State of Ohio. A total contract payment of $19,176 was paid during the fiscal year and an amount of $1,367 was accrued as a liability for the year ended June 30, 2012.

13. FISCAL AGENT (Continued)

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

- Maintain custody of all funds received by the Academy in segregated accounts separate from the Sponsor or any other Community School's funds;

- Maintain all books and accounts of the Academy;

- Maintain all financial records of the Academy and follow procedures for receiving and expending State funds, which procedures shall include that the Treasurer shall disburse money only upon receipt of a voucher signed by the Chief Administrative Officer of the Academy or that Officer's designee;

- Assist the Academy in meeting all financial reporting requirements established by the Auditor of 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.

14. RELATED PARTIES

The Executive Administrator (Superintendent) for the Academy is also the minister of the Philippian Missionary Baptist Church. During the fiscal year ended 2012, the Academy leased classroom space from the church and also paid the maintenance costs (See Note 11).

The Academy also gave the Church computer equipment valued at $4,316 in exchange for three months of rent payments valued at $9,000.

15. CONTINGENT LIABILITIES

A. Grants and ADM

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

The Academy received financial assistance from federal and State agencies in the form of grants. The expenditure 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. This also encompasses the Auditor of State's ongoing review of student attendance data; however, the effect of any such disallowed claims on the overall financial position of the Academy at June 30, 2012, if applicable, cannot be determined at this time.

15. CONTINGENT LIABILITIES (Continued)

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. 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. As a result of the fiscal year 2012 reviews, the Academy is due $1,853 from the Ohio Department of Education. This amount has been reported as an intergovernmental receivable on the statement of net assets.

INDEPENDENT AUDITOR'S 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, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Quest Academy Community School, Allen County, (the Academy) as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, and have issued our report thereon dated February 6, 2014. We also noted the Academy ceased operation on June 30, 2013 as noted in Note 16.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Academy's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Academy's internal control. Accordingly, we have not opined on it.

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 a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Academy's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

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, opining 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*.

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Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Academy's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dave Yost
Auditor of State

Columbus, Ohio

February 6, 2014

Independent Accountants' Report on Applying Agreed-Upon Procedures

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 procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether Quest Academy Community School (the Academy) 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. In our report dated February 27, 2012, we noted the Board adopted an anti-harassment policy on May 2, 2011. However, this policy did not include all matters required by Ohio Rev. Code 3313.666.

2. We inquired with the Board's management regarding the aforementioned policy. They stated they have not amended the May 2, 2011 policy. The policy lacks the following required by Ohio Rev. Code Section 3313.666.

   (1) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666, as of the latest amendment

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.

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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.

Dave Yost
Auditor of State

February 6, 2014

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
MARCH 18, 2014

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