



Dave Yost • Auditor of State



QUEST COMMUNITY SCHOOL  
CUYAHOGA COUNTY

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Quest Community School  
Cuyahoga County  
12000 Snow Rd, Suites 4-5  
Parma, Ohio 44130

To the Board of Directors:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of Quest Community School, Cuyahoga County, Ohio (the School), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School'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 School'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 School'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 the overall financial statement presentation.

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

### ***Opinion***

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

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**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 May 20, 2014, on our consideration of the School'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 School's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

May 20, 2014

**QUEST COMMUNITY SCHOOL  
CUYAHOGA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)

The management's discussion and analysis of the Quest Community School's (the "School") financial performance provides an overall review of School's financial activities for the fiscal year ended June 30, 2013. The intent of this discussion and analysis is to look at School's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of School's financial performance.

**Financial Highlights**

Key financial highlights for the fiscal year ended June 30, 2013 are as follows:

- In total, net position was a deficit of \$93,540 at June 30, 2013.
- The School had operating revenues of \$622,631, operating expenses of \$721,071 and non-operating revenues of \$13,316 for the fiscal year ended June 30, 2013. Total change in net position for the year was a decrease of \$85,124.

**Using the Basic Financial Statements**

This annual report consists of management's discussion and analysis, the basic financial statements and the notes to those statements. These statements are organized so the reader can understand School's financial activities. The statement of net position and statement of revenues, expenses and changes in net position provide information about the activities of School, including all short-term and long-term financial resources and obligations.

**Reporting School's 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 plus deferred outflows, liabilities plus 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 School's *net position* and changes in net position. This change in net position is important because it tells the reader that, for the School as a whole, the *financial position* of the School 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 School 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.

**QUEST COMMUNITY SCHOOL  
CUYAHOGA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)

The table below provides a summary of School's net position for fiscal year 2013 compared to fiscal year 2012.

	<b>Net Position</b>	
	<u>2013</u>	<u>2012</u>
<b><u>Assets</u></b>		
Current assets	\$ 10,169	\$ 39,603
Total assets	<u>10,169</u>	<u>39,603</u>
<b><u>Liabilities</u></b>		
Current liabilities	<u>103,709</u>	<u>48,019</u>
Total liabilities	<u>103,709</u>	<u>48,019</u>
<b><u>Net Position</u></b>		
Restricted	84	-
Unrestricted (deficit)	<u>(93,624)</u>	<u>(8,416)</u>
Total net position (deficit)	<u>\$ (93,540)</u>	<u>\$ (8,416)</u>

Over time, net position can serve as a useful indicator of an entity's financial position. At June 30, 2013, the School's net position was a deficit of \$93,540.

Current assets include the School's demand deposit account and prepaid assets. Current liabilities include accounts payable for unpaid rent, accrued wages, pension obligations and amounts due to other governments.

The School had \$84 in restricted net position at the end of fiscal year 2013.



**QUEST COMMUNITY SCHOOL  
CUYAHOGA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)

The table below shows the changes in net position for the fiscal year 2013 compared to fiscal year 2012.

**Change in Net Position**

	<u>2013</u>	<u>2012</u>
<b><u>Operating Revenues:</u></b>		
State foundation	\$ 346,282	\$ 299,114
Contract services	275,589	1,646,797
Sales/charges for services	751	363
Other	<u>9</u>	<u>2,578</u>
Total operating revenue	<u>622,631</u>	<u>1,948,852</u>
<b><u>Operating Expenses:</u></b>		
Salaries and wages	482,045	1,424,082
Fringe benefits	127,350	467,510
Purchased services	83,650	59,535
Materials and supplies	24,795	6,933
Other	<u>3,231</u>	<u>4,767</u>
Total operating expenses	<u>721,071</u>	<u>1,962,827</u>
<b><u>Non-operating Revenues:</u></b>		
State grants	13,066	5,509
Contributions and donations	<u>250</u>	<u>50</u>
Total non-operating revenues	<u>13,316</u>	<u>5,559</u>
Change in net position	(85,124)	(8,416)
Net position (deficit) at beginning of year	<u>(8,416)</u>	<u>-</u>
Net position (deficit) at end of year	<u>\$ (93,540)</u>	<u>\$ (8,416)</u>

The School had 47 students in fiscal year 2013, an increase in enrollment of 20 students from fiscal year 2012. The School is reliant upon State foundation revenue.

Salaries and wages and fringe benefits are the largest expenses of the School. The decrease in contract service revenue along with the decrease in salaries and wages and fringe benefits costs was due to the School ending the contract with Education Alternatives to provide educational and administrative services.

**Capital Assets and Long-Term Obligations**

The School had no capital assets at June 30, 2013. The School received an operating loan of \$15,735 from Education Alternatives in 2012 that was still outstanding at June 30, 2013.

**Current Financial Related Activities**

The School is reliant upon State Foundation monies and State and Federal Grants to offer quality educational services to students.

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

**QUEST COMMUNITY SCHOOL  
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)**

**Contacting School's Financial Management**

This financial report is designed to provide our clients and creditors with a general overview of School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Joseph Kay, Treasurer, Quest Community School, 12000 Snow Road Suites 4-5, Parma, Ohio 44130.

**QUEST COMMUNITY SCHOOL  
CUYAHOGA COUNTY, OHIO**

STATEMENT OF NET POSITION  
JUNE 30, 2013

**Assets:**

Current assets:

Cash and cash equivalents . . . . .	\$	1,287
Prepayments . . . . .		8,882

Total assets. . . . .		10,169
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**Liabilities:**

Current liabilities:

Accounts payable. . . . .		27,000
Accrued wages and benefits . . . . .		44,680
Pension obligation payable. . . . .		14,571
Intergovernmental payable . . . . .		1,723
Loans payable. . . . .		15,735

Total liabilities . . . . .		103,709
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**Net position:**

Restricted for other purposes. . . . .		84
Unrestricted (deficit). . . . .		(93,624)
Total net position (deficit). . . . .	\$	(93,540)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**QUEST COMMUNITY SCHOOL  
CUYAHOGA COUNTY, OHIO**

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

<b>Operating revenues:</b>	
Foundation revenue . . . . .	\$ 346,282
Contract services. . . . .	275,589
Sales/charges for services. . . . .	751
Other . . . . .	9
Total operating revenues . . . . .	<u>622,631</u>
<b>Operating expenses:</b>	
Salaries and wages. . . . .	482,045
Fringe benefits. . . . .	127,350
Purchased services. . . . .	83,650
Materials and supplies . . . . .	24,795
Other. . . . .	3,231
Total operating expenses. . . . .	<u>721,071</u>
Operating loss. . . . .	<u>(98,440)</u>
<b>Non-operating revenues:</b>	
State grants . . . . .	13,066
Contributions and donations. . . . .	250
Total non-operating revenues. . . . .	<u>13,316</u>
Change in net position . . . . .	(85,124)
<b>Net position (deficit) at beginning of year. . . . .</b>	<u>(8,416)</u>
<b>Net position (deficit) at end of year . . . . .</b>	<u>\$ (93,540)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**QUEST COMMUNITY SCHOOL  
CUYAHOGA COUNTY, OHIO**

STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**Cash flows from operating activities:**

Cash received from state foundation payments . . . . .	\$	345,887
Cash received from contract services . . . . .		275,589
Cash received from sales/charges for services. . . . .		751
Cash received from other operations . . . . .		9
Cash payments for salaries and wages. . . . .		(443,159)
Cash payments for fringe benefits . . . . .		(144,582)
Cash payments for contractual services . . . . .		(57,648)
Cash payments for materials and supplies . . . . .		(24,795)
Cash payments for other expenses . . . . .		(3,231)

Net cash used in operating activities. . . . .		(51,179)
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**Cash flows from noncapital financing activities:**

Cash received from state grants . . . . .		13,066
Cash received from contributions and donations. . . . .		250

Net cash provided by noncapital financing activities. . . . .		13,316
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Net decrease in cash and cash equivalents. . . . .		(37,863)
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<b>Cash and cash equivalents at beginning of year . . . . .</b>		39,150
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<b>Cash and cash equivalents at end of year . . . . .</b>	<b>\$</b>	<b>1,287</b>
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**Reconciliation of operating loss to net cash used in operating activities:**

Operating loss. . . . .	\$	(98,440)
Changes in assets and liabilities:		
Increase in prepayments . . . . .		(8,429)
Increase in accounts payable. . . . .		26,002
Increase in accrued wages and benefits. . . . .		21,412
Decrease in intergovernmental payable. . . . .		(2,306)
Increase in pension obligation payable. . . . .		10,582

Net cash used in operating activities. . . . .	\$	(51,179)
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**QUEST COMMUNITY SCHOOL  
CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2013

**NOTE 1 - DESCRIPTION OF THE SCHOOL**

The Quest Community School, Cuyahoga County, Ohio (the "School") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702, to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service, that qualifies as an 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 School's tax exempt status. The School's objective is to provide non-traditional paths to graduation through individualized, career-focused academics. The School serves students in grades 9 - 12, ages 13 - 22, who are at risk of dropping out of high school. The School, which is part of the State's education program, is nonsectarian in its programs, admissions policies, employment practices, and all other operations. The School may acquire facilities as needed and contract for any services necessary for the operation of the school.

The School was approved for operation under a contract with the Portage County Educational Service Center (the "Sponsor") for a period of five years commencing July 1, 2011 through June 30, 2016. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The School operates under the direction of a four member Board of Directors. The 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 Board controls the School's one instructional/support facility which provides services to 47 students.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements (BFS) of the School 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 School's significant accounting policies are described below.

**A. Basis of Presentation**

The School uses enterprise accounting to report on its financial activities. Enterprise accounting focuses on the determination of operating income, changes in net position, financial position and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods and services.

Operating revenues are those revenues that are generated directly from the primary activity of the School. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the School. All revenues and expenses not meeting this definition are reported as non-operating.

**QUEST COMMUNITY SCHOOL  
CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2013

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**B. Measurement Focus and Basis of Accounting**

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. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total net position. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

**C. 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 House Bill 364, which took effect April 8, 2003, added Ohio Rev. Code Section 3314.03 (11) (d), which states that community schools must comply with Ohio Rev. Code Section 5705.391. This requires each community school to submit to the Ohio Department of Education (ODE) a five year forecast no later than October 31 of each year. The contract between the School 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.

**D. Cash**

All monies received by the School are deposited into a demand deposit account.

**E. 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. 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 School or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The amount restricted for other purposes represents amounts restricted for student activities.

The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

**F. Intergovernmental Revenue**

The School currently participates in the State Foundation Program. Revenue from the State Foundation Program is recognized as operating revenue in the accounting period in which all eligibility requirements have been met. Amounts awarded under State Foundation Program for the 2013 school year, excluding all other State grants, totaled \$346,282.



**QUEST COMMUNITY SCHOOL  
CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2013

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

Revenues received from the remaining programs are recognized as non-operating revenues in the accompanying financial statements. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes 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 School must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. State grants revenue for the fiscal year 2013 received was \$13,066.

**G. Estimates**

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

**H. 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.

**I. Operating Revenues and Expenses**

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

**J. Capital Assets and Depreciation**

All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The School does not have a capital asset policy. 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 capitalized. The School had no capital assets at June 30, 2013.

**NOTE 3 - DEPOSITS**

At June 30, 2013, the carrying amount of all School deposits was \$1,287. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2013, the entire bank balance of \$1,287 was covered by the Federal Deposit Insurance Corporation (FDIC).

**QUEST COMMUNITY SCHOOL  
CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2013

**NOTE 4 - PURCHASED SERVICES**

For fiscal year ended June 30, 2013, purchased services expenses were as follows:

Professional services	\$ 21,431
Property rental and services	38,414
Travel, mileage and meetings	56
Communications	6,209
Contracted services	11,638
Transportation	<u>5,902</u>
Total purchased services	<u>\$ 83,650</u>

**NOTE 5 - RISK MANAGEMENT**

**A. Insurance Coverage**

The School 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. The School joined the Alliance of Nonprofits for Insurance Risk Retention Group.

For fiscal year ended June 30, 2013, the School contracted with Amerivest Financial Services, LLC. and had the following insurance coverage:

Automotive Liability	\$ 1,000,000
Commercial General Liability per Occurrence	1,000,000
Commercial General Liability Aggregate	3,000,000
Umbrella Liability	5,000,000

The School owns no property, but leases a facility located at 12000 Snow Road, Parma, Ohio 44130.

Settled claims have not exceeded this commercial coverage in the past two years and there have been no significant reductions in insurance coverage from fiscal year 2012.

**B. Workers' Compensation**

The School 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. Other Employee Benefits**

The School has contracted with a private carrier to provide employee medical, dental, and vision insurance to its full time employees who work 40 or more hours per week.

**QUEST COMMUNITY SCHOOL  
CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2013

**NOTE 6 - CONTINGENCIES**

**A. Grants**

The School received financial assistance from 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 of the School. However, the effect of any such disallowed claims on the overall financial position of the School at June 30, 2013, if applicable, cannot be determined at this time.

**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 School anticipates no adjustments to State funding for fiscal year 2014, as a result of the reviews which have yet to be completed.

**C. Litigation**

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

**D. Education Alternatives Claims**

Educational Alternatives alleges that the school owes \$197,923 to it as of June 30, 2013. The school's management strongly disputes almost all this amount. Other than the loans payable documented in Note 11, the only debt that the school acknowledges is \$24,000 in back rent for the facility on Smith Road. Management notes that except for a lease and sub-lease, there are no written documents that back up the allegations of Educational Alternatives. It is management's assertion that these additional billings are grossly inflated without justification to the benefit of Educational Alternatives. Based on the aforementioned a payable has not been accrued because the loss cannot be reasonably estimated.

**NOTE 7 - OPERATING LEASE**

The School subleases classroom space through the company Education Alternatives. Education Alternatives entered into a lease agreement with Portage County Educational Service Center for the School's instructional facility located at 5555 Smith Road, Brook Park, Ohio. The School made \$9,000 in lease payments for the fiscal year ending June 30, 2013 and owed \$24,000 to Education Alternatives for fiscal year 2013 lease payments not paid by year-end. The amount owed is included as part of accounts payable on the financial statements.

The School entered into sublease agreement with Portage County Educational Service Center that was effective July 1, 2013 for instructional space at 12000 Snow Road, Parma, Ohio. This lease is a month-to-month lease that can be terminated with a sixty day advance written note by either party. The lease payment is \$4,000 per month.

**QUEST COMMUNITY SCHOOL  
CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2013

**NOTE 8 - PENSION PLANS**

**A. School Employees Retirement System**

Plan Description - The School contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under "Employers/Audit Resources".

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2013, 13.05 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. 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 School's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2013 and 2012 were \$8,824 and \$8,490, respectively; 56.13 percent has been contributed for fiscal year 2013 and 100 percent for fiscal year 2012.

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

Plan Description - The School 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](http://www.strsoh.org), under "Publications".

**QUEST COMMUNITY SCHOOL  
CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2013

**NOTE 8 - PENSION PLANS - (Continued)**

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For fiscal year 2013, plan members were required to contribute 10 percent of their annual covered salaries. The School 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 School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2013 and 2012 were \$48,854 and \$175,899, respectively; 100 percent has been contributed for fiscal years 2013 and 2012. Contributions to the DC and Combined Plans for fiscal year 2013 were \$2,038 made by the School and \$1,456 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, 2013, certain members of the Board of Directors have elected Social Security. The School's liability is 6.2 percent of wages paid.

**QUEST COMMUNITY SCHOOL  
CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2013

**NOTE 9 - POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

Plan Description - The School 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 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 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](http://www.ohsers.org), under "Employers/Audit Resources".

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2013, 0.16 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 2013, the actuarially determined amount was \$20,525.

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 School's contributions for health care (including surcharge) for the fiscal years ended June 30, 2013 and 2012 were \$815 and \$368, respectively; 56.13 percent has been contributed for fiscal year 2013 and 100 percent for fiscal year 2012.

**QUEST COMMUNITY SCHOOL  
CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2013

**NOTE 9 - POSTEMPLOYMENT BENEFITS - (Continued)**

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2013, this actuarially required allocation was 0.74 percent of covered payroll. The School's contributions for Medicare Part B for the fiscal years ended June 30, 2013 and 2012 were \$498 and \$501, respectively; 56.13 percent has been contributed for fiscal year 2013 and 100 percent for fiscal year 2012.

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

*Plan Description* - The School contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting [www.strsoh.org](http://www.strsoh.org), 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 2013, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School's contributions for health care for the fiscal years ended June 30, 2013 and 2012 \$3,758 and \$13,531, respectively; 100 percent has been contributed for fiscal years 2013 and 2012.

**NOTE 10 - EDUCATIONAL AND ADMINISTRATIVE SERVICES AGREEMENT**

The School entered into an educational and administrative services agreement for the period August 15, 2011 through August 24, 2012 with Education Alternatives to deliver educational instruction to students served by Education Alternatives at its facilities. The School also agrees to provide administrative services to Education Alternatives including managing and administering personnel matters for the teachers. Education Alternatives pays the School a monthly fee which includes the following employer costs: salary, unemployment, STRS Ohio, SERS, Medicare, Workers' Compensation, medical insurance, dental insurance, vision insurance, life insurance and an administrative fee of one percent of the listed employer costs. The School received \$275,589 in contract services revenue related to the educational and administrative services agreement during fiscal year 2013.

**NOTE 11 - LOAN PAYABLE**

During 2012, the School received a \$15,735 operating loan from Education Alternatives. There is no formalized agreement establishing repayment terms or conditions.

	Balance			Balance
	<u>6/30/12</u>	<u>Additions</u>	<u>Reductions</u>	<u>6/30/13</u>
Operating Loan	\$ 15,735	\$ -	\$ -	\$ 15,735

**QUEST COMMUNITY SCHOOL  
CUYAHOGA COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2013**

**NOTE 12 – SUBSEQUENT EVENTS**

- A. School operations were suspended effective August 21, 2013 due to financial difficulties. The suspension was rescinded and changed to probation effective September 2, 2013.
- B. The School entered into a Shared Services Agreement (Agreement) on September 28, 2013 with the Portage County Educational Service Center (PCESC). This Agreement will commence on September 28, 2013 and will continue until September 30, 2014 (Initial Term), unless earlier terminated. After the Initial Term, this Agreement will automatically continue from year to year unless terminated by either party.

The School will utilize the PCESC's superintendent to superintend the operation of the School, which rights and responsibilities include, without limitation:

- Serving as chief executive officer and superintendent of the School;
- Analyzing available data to develop and implement a plan to improve the School's operations
- Preparing Board meeting agendas and evaluating and making recommendations on all issues considered by the Board;
- Evaluating and developing administrative procedures related to the operation of the School;
- Exercising discretion to address all matters not covered by Board policy or administrative procedure;
- Directing all of the School's business affairs;
- Developing the School's budget, including the purchase of all equipment, supplies and services, for Board approval and overseeing appropriation measures;
- Managing the School's human resources functions, including the administration of employee contracts, demotions, transfers, compensation, benefits, non-renewals and termination;
- Overseeing the administration of the School's educational programs, including reviewing and revising curriculum and educational delivery methods; and
- Engaging with stakeholders in developing a strategic plan for the School to ensure adequate financial resources to meet short and long term objectives.

The School agrees to pay PCESC a daily rate of \$620.00 for days on which Shared Services are provided by the PCESC under this Agreement. In the event that Shared Services are provided for less than a full work day, such Shared Services Fee shall be prorated.

**NOTE 13 - MANAGEMENT PLAN TO ELIMINATE NEGATIVE NET POSITION**

The School's negative net position was caused by two factors. First, only modest growth in enrollment from the previous year plus a drop in enrollment late in the fiscal year and its consequent lower level of funding, caused the school to drop behind in the payment of current financial obligations. Second, invoices from Educational Alternatives were presented to the school as mentioned in the previous note.



**QUEST COMMUNITY SCHOOL  
CUYAHOGA COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2013**

**NOTE 13 - MANAGEMENT PLAN TO ELIMINATE NEGATIVE NET POSITION - (Continued)**

The School's management took immediate steps to address this issue. Over the past summer management worked diligently to increase enrollment for the fiscal year which began July 1, 2013. Revenue increase greatly and the school was able to pay all past and current invoices (with the exception of Educational Alternatives) by the end of the calendar year 2013.

In addition, negotiations are underway to negotiate a settlement with Educational Alternatives. Management strongly disputes almost the entire amount of what Educational Alternatives has invoiced. Management has retained counsel to represent it in this matter and hopes to have the issue resolved by the end of fiscal year 2014.

Management sees no reason why the School cannot return to a positive total net position by mid to late fiscal 2015 at the latest and perhaps as soon as the end of fiscal 2014.

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Quest Community School  
Cuyahoga County  
12000 Snow Road Suites 4-5  
Parma, Ohio 44130

To the Board of Directors,

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 Community School, Cuyahoga County, Ohio (the School) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated May 19, 2014.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the School'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 School's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

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 a 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 School'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. We consider finding 2013-001 described in the accompanying schedule of findings to be a material weakness.

### ***Compliance and Other Matters***

As part of reasonably assuring whether the School'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*.

***Entity's Response to Findings***

The School's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the School's response and, accordingly, we express no opinion on it.

***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 School's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

**Dave Yost**  
Auditor of State  
Columbus, Ohio

May 19, 2014

QUEST COMMUNITY SCHOOL  
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS  
JUNE 30, 2013

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

FINDING NUMBER 2013-001

**Material Weakness – Loans Payable**

Sound financial reporting is the responsibility of the Board of Directors and Treasurer and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

The following weakness was noted and subsequent adjustments were made to the financial statements:

- Loans payable was overstated by \$197,923. Although vendor invoices exist, management strongly disputes the validity of the invoices and the services provided.
- Loans payable was understated by \$15,735. The School did not record an operating loan for \$15,735 that was recognized and recorded on the prior year financial statements. This amount was acknowledged by management in the prior year audit and there was no evidence provided to support that this was incorrectly recorded.

The lack of controls over the posting of financial transactions and financial reporting can result in errors and irregularities that may go undetected and decreases the reliability of financial data throughout the year.

We recommend the School adopt policies and procedures for controls over recording of financial transactions and over financial reporting to help ensure the information accurately reflects the activity of the School and thereby increasing the reliability of the financial data throughout the year.

Further we suggest management move the Court to issue a declaratory judgment to resolve the matter involving the disputed invoices.

**Official Response:**

The Governing Board and management of Quest Community School agree that loans payable was understated by the amount the auditor has indicated. The Governing Board and management of Quest Community School are aware of and does not dispute the overstatement of the amount the auditor has indicated. The Board's legal representative and Superintendent are negotiating with Educational Alternatives to reach a mutually agreeable settlement. The Governing Board will consider seeking legal redress if negotiations do not produce an acceptable settlement. The Governing Board and management of Quest Community School agree that these represented a weakness in our financial reporting.

Quest has already taken some steps and plans to do more, to insure that this situation does not reoccur. All loans and contracts are board approved. Financial transactions are posted as they occur and reconciliations are done monthly and reported to the Board. Finally, the Board is in the process of updating its entire policy manual and intends to develop policies which will prevent this from happening again.

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# Dave Yost • Auditor of State

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

Quest Community School  
Cuyahoga County  
12000 Snow Rd, Suites 4-5  
Parma, Ohio 44130-9314

To the Board of Directors:

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

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

1. We noted the School amended its anti-harassment policy at its meeting on March 13, 2012 to include prohibiting harassment, intimidation, or bullying of any student "on a school bus" or by an "electronic act."

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

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

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

**Dave Yost**  
Auditor of State  
Columbus, Ohio

May 19, 2014

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# Dave Yost • Auditor of State

**QUEST COMMUNITY SCHOOL**

**CUYAHOGA 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  
JUNE 3, 2014**