



Dave Yost • Auditor of State



QUEST COMMUNITY SCHOOL  
CUYAHOGA COUNTY

TABLE OF CONTENTS

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Statement of Net Assets .....	7
Statement of Activities.....	8
Statement of Cash Flows.....	9
Notes to the Basic Financial Statements .....	10
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	19
Independent Accountants' Report on Applying Agreed-Upon Procedure .....	21

**This page intentionally left blank.**



# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Quest Community School  
Cuyahoga County  
555 Smith Road  
Brook Park, OH 44142

To the Board of Directors:

We have audited the accompanying financial statements of Quest Community School, Cuyahoga County, Ohio (the School), as of and for the initial year of operations ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Quest Community School, Cuyahoga County, Ohio, as of June 30, 2012, and the changes in financial position and cash flows, for the initial year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 29, 2013, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

May 29, 2013

**QUEST COMMUNITY SCHOOL  
CUYAHOGA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE PERIOD SEPTEMBER 28, 2011 THROUGH JUNE 30, 2012  
(UNAUDITED)

The management's discussion and analysis of the Quest Community School's (the "School") financial performance provides an overall review of the School's financial activities for the period September 28, 2011 through June 30, 2012, which was the first period of operation for the School. The intent of this discussion and analysis is to look at the 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 the School's financial performance.

**Financial Highlights**

Key financial highlights for the period September 28, 2011 through June 30, 2012 are as follows:

- In total, net assets were a deficit of \$8,416 at June 30, 2012.
- The School had operating revenues of \$1,948,852, operating expenses of \$1,962,827 and non-operating revenues of \$5,559 for the period September 28, 2011 through June 30, 2012. Total change in net assets for the School's initial period of operation was a decrease of \$8,416.

**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 the School's financial activities. The statement of net assets and statement of revenues, expenses and changes in net assets provide information about the activities of the School, including all short-term and long-term financial resources and obligations.

**Reporting School's Financial Activities**

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

The statement of net assets and the statement of revenues, expenses and changes in net assets answer the question, "How did we do financially during our initial operating period?" 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 period's revenues and expenses regardless of when cash is received or paid.

These two statements report the School's net assets and changes in those assets. This change in net assets 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 meets the cash flow needs of its operations. The statement of cash flows can be found on page 9 of this report.

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes to the basic financial statements can be found on pages 10-18 of this report.

**QUEST COMMUNITY SCHOOL  
CUYAHOGA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE PERIOD SEPTEMBER 28, 2011 THROUGH JUNE 30, 2012  
(UNAUDITED)

Since this is the first year that the School has prepared financial statements, comparison with the prior year is not available. A comparative analysis will be provided in future years when prior year information is available.

The table below provides a summary of the School's net assets at June 30, 2012.

	<u>2012</u>
<b>Net Assets</b>	
<b><u>Assets</u></b>	
Current assets	\$ 39,603
Total assets	<u>39,603</u>
<b><u>Liabilities</u></b>	
Current liabilities	<u>48,019</u>
Total liabilities	<u>48,019</u>
<b><u>Net Assets</u></b>	
Unrestricted (deficit)	<u>(8,416)</u>
Total net assets	<u>\$ (8,416)</u>

Over time, net assets can serve as a useful indicator of an entity's financial position. At June 30, 2012, the School's net assets were a deficit of \$8,416.

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

The School does not have any restricted assets at year-end.



**QUEST COMMUNITY SCHOOL  
CUYAHOGA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE PERIOD SEPTEMBER 28, 2011 THROUGH JUNE 30, 2012  
(UNAUDITED)

The table below shows the changes in net assets for the period September 28, 2011 through June 30, 2012.

**Change in Net Assets**

	<u>2012</u>
<b><u>Operating Revenues:</u></b>	
State foundation	\$ 299,114
Contract services	1,646,797
Sales/charges for services	363
Other	<u>2,578</u>
Total operating revenue	<u>1,948,852</u>
<b><u>Operating Expenses:</u></b>	
Salaries and wages	1,424,082
Fringe benefits	467,510
Purchased services	59,535
Materials and supplies	6,933
Other	<u>4,767</u>
Total operating expenses	<u>1,962,827</u>
<b><u>Non-operating Revenues:</u></b>	
State grants	5,509
Contributions and donations	<u>50</u>
Total non-operating revenues	<u>5,559</u>
Change in net assets	(8,416)
Net assets at beginning of period	<u>-</u>
Net assets (deficit) at end of period	<u>\$ (8,416)</u>

The period September 28, 2011 through June 30, 2012 was the first period of operation for the School. The School had 27 students during this period. The School is reliant upon State foundation revenue and contract service revenue to support operations. The contract service revenue was for educational and administrative services provided by the School to the company Education Alternatives (see Note 10 to the basic financial statements).

Salaries and wages and fringe benefits are the largest expenses of the School. A portion of these expenses was used to provide educational and administrative services to Education Alternatives.

**Capital Assets and Long-Term Obligations**

The School had no capital assets at June 30, 2012. The School received an operating loan of \$15,735 from Education Alternatives during 2012.

**QUEST COMMUNITY SCHOOL  
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE PERIOD SEPTEMBER 28, 2011 THROUGH JUNE 30, 2012  
(UNAUDITED)**

**Current Financial Related Activities**

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

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

**Contacting School's Financial Management**

This financial report is designed to provide our clients and creditors with a general overview of the 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. Jon Kristoff, Executive Director, Quest Community School, 5555 Smith Road, Brook Park, Ohio 44142.

**QUEST COMMUNITY SCHOOL  
CUYAHOGA COUNTY**

STATEMENT OF NET ASSETS  
JUNE 30, 2012

**Assets:**

*Current Assets:*

Cash and cash equivalents . . . . .	\$ 39,150
Prepayments	453
	<hr/>
Total assets . . . . .	39,603
	<hr/>

**Liabilities:**

*Current Liabilities:*

Accounts payable . . . . .	998
Accrued wages and benefits . . . . .	23,268
Pension obligation payable . . . . .	3,989
Intergovernmental payable . . . . .	4,029
Loans payable . . . . .	15,735
	<hr/>
Total liabilities . . . . .	48,019
	<hr/>

**Net assets:**

Unrestricted (deficit) . . . . .	(8,416)
	<hr/>
Total net assets (deficit) . . . . .	\$ (8,416)
	<hr/> <hr/>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**QUEST COMMUNITY SCHOOL  
CUYAHOGA COUNTY**

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

<b>Operating revenues:</b>	
Foundation revenue . . . . .	\$ 299,114
Contract services. . . . .	1,646,797
Sales/charges for services. . . . .	363
Other . . . . .	2,578
Total operating revenues . . . . .	<u>1,948,852</u>
 <b>Operating expenses:</b>	
Salaries and wages. . . . .	1,424,082
Fringe benefits. . . . .	467,510
Purchased services. . . . .	59,535
Materials and supplies . . . . .	6,933
Other. . . . .	4,767
Total operating expenses. . . . .	<u>1,962,827</u>
Operating loss. . . . .	<u>(13,975)</u>
 <b>Non-operating revenues:</b>	
Federal and State grants. . . . .	5,509
Contributions and donations. . . . .	50
Total non-operating revenues. . . . .	<u>5,559</u>
Change in net assets. . . . .	(8,416)
<b>Net assets at beginning of year . . . . .</b>	<u>-</u>
<b>Net assets (deficit) at end of year. . . . .</b>	<u>\$ (8,416)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**QUEST COMMUNITY SCHOOL  
CUYAHOGA COUNTY**

STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

<b>Cash flows from operating activities:</b>	
Cash received from state foundation payments . . . . .	\$ 299,509
Cash received from contract services. . . . .	1,646,797
Cash received from sales/charges for services . . . . .	363
Cash received from other operations . . . . .	2,578
Cash payments for salaries and wages . . . . .	(1,419,920)
Cash payments for fringe benefits . . . . .	(441,234)
Cash payments for contractual services . . . . .	(58,537)
Cash payments for materials and supplies . . . . .	(6,933)
Cash payments for other expenses . . . . .	(4,767)
Net cash provided by operating activities . . . . .	<u>17,856</u>
<b>Cash flows from noncapital financing activities:</b>	
Cash received from Federal and State grants. . . . .	5,509
Cash received from contributions and donations. . . . .	50
Loan proceeds. . . . .	15,735
Net cash provided by noncapital financing activities. . . . .	<u>21,294</u>
Net increase in cash and cash equivalents . . . . .	39,150
<b>Cash and cash equivalents at beginning of year . . . . .</b>	<b>-</b>
<b>Cash and cash equivalents at end of year . . . . .</b>	<b><u>\$ 39,150</u></b>
<b>Reconciliation of operating loss to net cash provided by operating activities:</b>	
Operating loss . . . . .	\$ (13,975)
Changes in assets and liabilities:	
Increase in prepayments . . . . .	(453)
Increase in accounts payable. . . . .	998
Increase in accrued wages and benefits . . . . .	23,268
Increase in intergovernmental payable . . . . .	4,029
Increase in pension obligation payable . . . . .	3,989
Net cash provided by operating activities . . . . .	<u>\$ 17,856</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**QUEST COMMUNITY SCHOOL  
CUYAHOGA COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**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 27 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 also applies Financial Accounting Standards Board (FASB) guidance issued prior to November 30, 1989, provided this guidance does not conflict with or contradict GASB pronouncements. The School has the option to also apply FASB guidance issued after November 30, 1989, subject to this same limitation. The School has elected not to apply this FASB guidance. 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 assets, 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**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

**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 assets. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. 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.

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.

Nonexchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is 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 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.

Expenses are recognized at the time that 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 Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

**QUEST COMMUNITY SCHOOL  
CUYAHOGA COUNTY**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

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

**F. Intergovernmental Revenue**

The School currently participates in the State Foundation Program, the IDEA Part B grant, the Title I grant, and the Title IIA grant. 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 2012 school year, excluding all other State grants, totaled \$299,114.

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 2012 received was \$5,509.

**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, 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.

**I. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activities. 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, 2012.



**QUEST COMMUNITY SCHOOL  
CUYAHOGA COUNTY**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

**NOTE 3 - DEPOSITS**

At June 30, 2012, the carrying amount of all School deposits was \$39,150. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2012, the entire bank balance of \$69,207 was covered by the Federal Deposit Insurance Corporation (FDIC).

**NOTE 4 - PURCHASED SERVICES**

For fiscal year ended June 30, 2012, purchased services expenses were as follows:

Professional services	\$ 22,526
Property rental and services	7,132
Travel, mileage and meetings	1,040
Communications	13,073
Contracted services	6,619
Tuition	45
Transportation	<u>9,100</u>
Total purchased services	<u>\$ 59,535</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, 2012, 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 5555 Smith Road, Brook Park, Ohio.

Settled claims did not exceed this commercial coverage during the period September 28, 2011 through June 30, 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.

**QUEST COMMUNITY SCHOOL  
CUYAHOGA COUNTY**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

**NOTE 5 - RISK MANAGEMENT (Continued)**

**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.

**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, 2012, if applicable, cannot be determined at this time.

**B. State Foundation Funding**

The Ohio Department of Education (ODE) 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 review, the School owes \$395 to the Ohio Department of Education.

**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.

**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 was not required to make lease payments for the period September 28, 2011 through June 30, 2012.

**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".

**QUEST COMMUNITY SCHOOL  
CUYAHOGA COUNTY**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

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 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 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 year ended June 30, 2012 was \$8,490. 100 percent has been contributed 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".

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.

**QUEST COMMUNITY SCHOOL  
CUYAHOGA COUNTY**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

Funding Policy - For fiscal year 2012, 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 year ended June 30, 2012 was \$175,899. 98.07 percent has been contributed for fiscal year 2012. Contributions to the DC and Combined Plans for fiscal year 2012 were \$9,867 made by the School and \$7,048 made by the plan members.

**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 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](http://www.ohsers.org), under "Employers/Audit Resources".

**QUEST COMMUNITY SCHOOL  
CUYAHOGA COUNTY**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 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 School's contributions for health care (including surcharge) for the fiscal year ended June 30, 2012 was \$368. 100 percent has been contributed for fiscal year 2012.

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 School's contributions for Medicare Part B for the fiscal year ended June 30, 2012 was \$501. 100 percent has been contributed 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 2012, 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 year ended June 30, 2012 was \$13,531. 98.07 percent has been contributed for fiscal year 2012.

**QUEST COMMUNITY SCHOOL  
CUYAHOGA COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 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 \$1,627,145 in contract services revenue related to the educational and administrative services agreement during fiscal year 2012.

**NOTE 11 – LOAN PAYABLE**

During 2012, the School received a \$15,735 operating loan from Education Alternatives.



# Dave Yost • Auditor of State

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

Quest Community School  
Cuyahoga County  
5555 Smith Road  
Brook Park, Ohio 44142

To the Board of Directors:

We have audited the financial statements of Quest Community School, Cuyahoga County, Ohio (the School) as of and for the initial year of operations ended June 30, 2012 and have issued our report thereon dated May 29, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the School's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and timely corrected.

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

### Compliance and Other Matters

As part of reasonably assuring whether the 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, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Quest Community School  
Cuyahoga County  
Independent Accountants' Report on Internal Control Over Financial  
Reporting and on Compliance and Other Matters Required by  
*Government Auditing Standards*  
Page 2

We did note certain matters not requiring inclusion in this report that we reported to the School's management in a separate letter dated May 29, 2013.

We intend this report solely for the information and use of management, the Board of Directors, the Community School's sponsor, and others within the School. We intend it for no one other than these specified parties.

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

**Dave Yost**  
Auditor of State

May 29, 2013





# Dave Yost • Auditor of State

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

Quest Community School  
Cuyahoga County  
5555 Smith Road  
Brook Park, Ohio 44142

To the Governing Board:

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

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Governing Board, solely to assist the Board in evaluating whether Quest Community 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 Governing 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.

We noted the Board approved its anti-harassment policy at its meeting on March 13, 2012. We read the policy, noting it includes all the requirements listed in Ohio Rev. Code 3313.666.

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

May 29, 2013

**This page intentionally left blank.**



# 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 11, 2013**