QUEST COMMUNITY SCHOOL
CUYAHOGA COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2016

Dave Yost • Auditor of State

QUEST COMMUNITY SCHOOL
CUYAHOGA COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Prepared by Management:	
Management's Discussion and Analysis	3
Basic Financial Statements:	
Statement of Net Position	9
Statement of Revenues, Expenses and Changes in Net Position	10
Statement of Cash Flows	11
Notes to the Basic Financial Statements	12
Required Supplementary Information:	
Schedules of the School's Proportionate Share of the Net Pension Liability:	
School Employees Retirement System of Ohio	30
State Teachers Retirement System of Ohio	31
Schedules of School Contributions:	
School Employees Retirement System of Ohio	32
State Teachers Retirement System of Ohio	33
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*	35
Schedule of Findings	37

This page intentionally left blank.

INDEPENDENT AUDITOR'S REPORT

Quest Community School
Cuyahoga County
12000 Snow Rd. #4/5
Parma, OH 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, 2016, 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 such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of overall financial statement presentation.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Quest Community School, Cuyahoga County, Ohio, as of June 30, 2016, 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.

Emphasis of Matter

As discussed in Note 12 to the financial statements, the School permanently closed as of June 30, 2017. We did not modify our opinion regarding this matter.

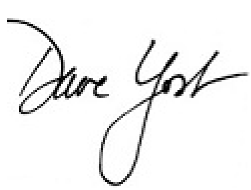
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, and schedules of net pension liabilities and pension contributions 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 December 5, 2017, 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

December 5, 2017

QUEST COMMUNITY SCHOOL
CUYAHOGA COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(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, 2016. 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, 2016 are as follows:

- In total, net position was a deficit of $1,055,991 at June 30, 2016.
- The School's total assets were $87,459 and total liabilities were $866,240 at end of the fiscal year.
- The School had deferred outflows of resources of $58,319 and deferred inflows of resources of $355,529.
- The School had operating revenues of $621,698, operating expenses of $527,318 non-operating revenues of $95,803 and non-operating expenses of $36,221 for the fiscal year ended June 30, 2016. Total change in net position for the year was an increase of $153,961.

During 2015, the School adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals the School's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

Financial Highlights (continued)

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer.* State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the School's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

As a result of implementing GASB 68, the School is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

Using this Annual Financial Report

This financial report contains the basic financial statements of the School, as well as the Management's Discussion and Analysis and notes to the basic financial statements. The basic financial statements include a Statement of Net position, Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows. As the School reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity; therefore, the entity wide and the fund presentation information is the same.

Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position answer the question, "How did we do financially during the fiscal year?" The Statement of Net Position includes all assets and deferred outflows of resources and liabilities and deferred inflows of resources, both financial and capital, and short-term and long-term, using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

This statement reports the School's net position; however, in evaluating the overall position and financial viability of the School, non-financial information such as the condition of the School's property and potential changes in the laws governing charter schools in the State of Ohio will also need to be evaluated.

The Statement of Revenues, Expenses and Changes in Net Position reports the 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.

Statement of Net Position

The Statement of Net Position answers the question of how well the School performed financially during 2016. This statement includes all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position, both financial and capital and current and long-term, using the accrual basis of accounting, which is the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or expended.

Table 1 provides a summary of the School's Net Position for fiscal year 2016 and fiscal year 2015.

Table 1
Statement of Net Position

	2016	2015
Assets		
Current Assets	$ 87,459	$ 34,744
Total Assets	87,459	34,744
Deferred Outflow of Resources		
Pension System	58,319	122,269
Liabilities		
Current Liabilities	163,789	174,893
Long Term Liabilities	702,451	671,418
Total Liabilities	866,240	846,311
Deferred Inflow of Resources		
Pension System	335,529	520,654
Net Position		
Unrestricted	(1,055,991)	(1,209,952)
Total Net Position	$ (1,055,991)	$ (1,209,952)

Over time, net position can serve as a useful indicator of an entity's financial position. At June 30, 2016, the School's net position was a deficit of $1,055,991.

Current assets include the School's cash and cash equivalents, intergovernmental receivable, and prepaid items. Current liabilities include accounts payable accrued wages and benefits, loans payable, and intergovernmental payable.

Statement of Revenues, Expenses, and Changes in Net Position

The table below shows the changes in net position for the fiscal year 2016 compared to fiscal year 2015.

Table 2
Change in Net Position

	2016	2015
Operating Revenue		
Foundation Payments	$ 618,126	$ 529,819
Casino Revenue	3,571	3,677
Total Operating Revenues	621,697	533,496
Operating Expenses		
Salaries	50,794	292,491
Benefits	(58,606)	(30,576)
Purchased Services	522,231	352,928
Materials and Supplies	11,597	30,727
Other	1,302	1,648
Total Operating Expenses	527,318	647,218
Operating Income (Loss)	94,379	(113,722)
Non-Operating Revenues (Expenses)		
Federal and State Grants	95,803	95,112
Miscellaneous Revenue	-	1,294
Loss on Legal Settlement	(36,221)	-
Total Non-Operating Revenue	59,582	96,406
Change in Net Position	$ 153,961	$ (17,316)
Net Position, Beginning of Year Net	(1,209,952)	(1,192,636)
Position, End of Year	$ (1,055,991)	$ (1,209,952)

The School had 69 students in fiscal year 2016, an increase in enrollment of 5 students from fiscal year 2015. The School is reliant upon State foundation revenue.

The School's most significant expense was "Purchased Services" in fiscal year 2016. The increase in purchased services from fiscal year 2015 is primarily due to staffing. In fiscal year 2015, employees were employed by the school while in fiscal year 2016, employees were employed by the management company.

Capital Assets and Long-Term Obligations

The School had no capital assets or long-term debt at June 30, 2016.

Current Financial Related Activities

The School is reliant upon State Foundation monies and State and Federal Grants to offer quality education 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 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 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 the Treasurer of Quest Community School, 3320 W. Market St #300, Fairlawn, OH 44333

QUEST COMMUNITY SCHOOL
CUYAHOGA COUNTY
STATEMENT OF NET POSITION
JUNE 30, 2016

ASSETS	
Current Assets	
Cash & Cash Equivalents	$ 65,844
Intergovernmental Receivable	20,853
Prepaid Items	762
Total Assets	87,459
DEFERRED OUTFLOWS OF RESOURCES	
Pension System	58,319
LIABILITIES	
Current Liabilities	
Accounts Payable	16,193
Loans Payable	100,000
Intergovernmental Payable	1,679
Accrued Wages and Benefits	45,917
Total Current Liabilities	163,789
Long Term Liabilities	
Net Pension Liability	702,451
Total Liabilities	866,240
DEFERRED INFLOWS OF RESOURCES	
Pension System	335,529
NET POSITION	
Unrestricted Net Position	(1,055,991)
Total Net Position	$ (1,055,991)

The accompanying notes to the financial statements are an integral part of this statement.

QUEST COMMUNITY SCHOOL
CUYAHOGA COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

OPERATING REVENUES	
Foundation Payments	$ 618,126
Casino Revenue	3,571
Total Operating Revenues	621,697
OPERATING EXPENSES	
Salaries	50,794
Benefits	(58,606)
Purchased Services	522,231
Materials and Supplies	11,597
Other Expenses	1,302
Total Operating Expenses	527,318
Operating Income	94,379
NON-OPERATING REVENUES/(EXPENSES)	
Federal Grants	91,060
State Grants	4,743
Loss on Legal Settlement	(36,221)
Total Non-Operating Revenues/Expenses	59,582
Change in Net Position	153,961
Net Position, July 1, 2015	(1,209,952)
Net Position, June 30, 2016	$ (1,055,991)

The accompanying notes to the financial statements are an integral part of this statement.

QUEST COMMUNITY SCHOOL
CUYAHOGA COUNTY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from State Aid	$ 606,454
Cash Payments to Suppliers for Goods and Services	(608,664)
Net Cash Used for Operating Activities	(2,210)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Cash Received from Grant Programs	95,803
Cash Payments to Miscellaneous Sources	(36,221)
Net Cash Received from Non-capital Financing Activities	59,582
Net Increase in Cash and Cash Equivalents	57,372
Cash and Cash Equivalents at Beginning of Year	8,472
Cash and Cash Equivalents at End of Year	$ 65,844
RECONCILIATION OF OPERATING GAIN TO NET CASH USED FOR OPERATING ACTIVITIES	
Operating Income	$ 94,379
ADJUSTMENTS TO RECONCILE OPERATING GAIN TO NET CASH USED FOR OPERATING ACTIVITIES	
Changes in assets, liabilities, and deferred outflows/inflows of resources:	
Prepaid items	(762)
Intergovernmental receivable	5,419
Pension deferred outflows	63,950
Accounts payable	(99,760)
Accrued wages and benefits	13,391
Intergovernmental payable	(9,000)
Net pension liability	31,033
Pension deferred inflows	(185,125)
Loans payable	84,265
Total adjustments	(96,589)
Net cash used for operating activities	$ (2,210)

The accompanying notes to the financial statements are an integral part of this statement.

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 Ohio Department of Education's Office of School Sponsorship (the "Sponsor") for a period of two years commencing April 27, 2015 through June 30, 2017. 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 five 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 69 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.

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. The School has no capital assets or debt at fiscal year-end. 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 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, and receives taxes on Casino Revenue. 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 2016 school year, excluding all other State grants, totaled $618,126.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Intergovernmental Revenue (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 specific purpose; and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. State and Federal grant revenues for the fiscal year 2016 received was $95,803.

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, 2016, 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's capitalization threshold is $4,000. 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, 2016.

K. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. Deferred Outflows and Deferred Inflows of Resources

In addition to assets, the statements of the financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until then. For the School, deferred outflows of resources are reported on the statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 8.

In addition to liabilities, the Statements of Financial Position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applied to a future period and will not be recognized until that time. For the School, deferred inflows of resources include pension. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the statement of net position. (See Note 8)

NOTE 3 - DEPOSITS

At June 30, 2016, the carrying amount of all School deposits was $65,844. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of June 30, 2016, the entire bank balance of $65,844 was covered by the Federal Deposit Insurance Corporation (FDIC).

NOTE 4 - PURCHASED SERVICES

For fiscal year ended June 30, 2016, purchased services expenses were as follows:

Professional services	$ 357,312
Contract Services	57,145
Food Service	18,162
Sponsor	17,649
Utilities	11,867
Facilities and Equipment	51,247
Other	8,849
Total purchased services	$ 522,231

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, 2016, the School contracted with Keystone Risk Managers, 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
Director's and Officer's Liability:	
Each Wrongful Act	1,000,000
Annual Aggregate	2,000,000

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 any of the past three years and there have been no significant reductions in insurance coverage from fiscal year 2015.

B. Workers' Compensation

The School pays the State of Workers' 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.

NOTE 6 - CONTINGENCIES

A. Grants

The School receives financial assistance from State agencies in the form of grants. The expenditure of funds received under these programs generally require 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, 2016, if applicable, cannot be determined at this time.

NOTE 6 – CONTINGENCIES (continued)

B. State Foundation Funding

School Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, community school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2016 Foundation funding for the school; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the School.

C. Litigation

The School is involved in a litigation with Education Alternatives (EA) where they agreed to pay a settlement amount of $100,000 after failing to pay certain monies to EA. While the School claimed EA had failed to fulfill certain contractual obligations. This will be reported as loans payable on the financial statements. The settlement with EA resulted in a loss on legal settlement of $57,265 on the financial statements. The School also settled pending litigation with the Portage County Educational Service Center (“PCESC”) to release any and all claims, demands, damages, actions and causes. The School agreed to pay PCESC an amount of $6,536. When applied against outstanding payables to PCESC, the settlement resulted in a gain on legal settlement of $21,044 on the financial statements. The overall effect of the School’s litigation resulted in a net loss on legal settlements of $36,221 reported on the financial statements.

NOTE 7 - OPERATING LEASE

Effective June 1, 2015, the School entered into an agreement with The Savron Group for the instructional space at 12000 Snow Road, Parma, Ohio for a period of two years. The School agreed to pay the lessor $96,000 in 24 months installments of $4,000 per month.

NOTE 8 – DEFINED BENEFIT PENSION PLANS

A. Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions-–between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the School’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

NOTE 8 – DEFINED BENEFIT PENSION PLANS (continued)

A. Net Pension Liability (continued)

Ohio Revised Code limits the School's obligation for this liability to annually required payments. The School cannot control benefit terms or the manner in which pensions are financed; however, the School does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting.

B. Plan Description – School Employees Retirement System (SERS)

Plan Description – School non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS' fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

NOTE 8 – DEFINED BENEFIT PENSION PLANS (continued)

B. Plan Description – School Employees Retirement System (SERS) (continued)

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30.

Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. No allocation was made to the Health Care Fund.

The School's contractually required contribution to SERS was $6,435 for fiscal year 2016.

C. Plan Description – State Teachers Retirement System (STRS)

Plan Description – School licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

NOTE 8 – DEFINED BENEFIT PENSION PLANS (continued)

C. Plan Description – State Teachers Retirement System (STRS)

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. 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 DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability 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 – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 12 percent of their annual covered salary. The School was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The School's contractually required contribution to STRS was $24,306 for fiscal year 2016.

NOTE 8 – DEFINED BENEFIT PENSION PLANS (continued)

D. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportion of the net pension liability was based on the School's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	SERS	STRS	Total
Proportionate Share of the Net Pension Liability	$150,721	$551,730	$702,451
Proportion of the Net Pension Liability	0.002641%	0.0019963%	
Pension Expense	$21,724	($81,127)	($59,403)

At June 30, 2016, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	STRS	SERS	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	$25,151	$2,427	$27,578
School contributions subsequent to the measurement date	24,306	6,435	30,741
Total Deferred Outflows of Resources	$49,457	$8,862	$58,319
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	$39,680	$4,995	$44,675
Changes in proportion and differences	289,748	1,106	290,854
Total Deferred Inflows of Resources	$329,428	$6,101	$335,529

NOTE 8 – DEFINED BENEFIT PENSION PLANS (continued)

D. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

$30,741 reported as deferred outflows of resources related to pension resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	STRS	SERS	Total
Fiscal Year Ending June 30:			
2017	$ (105,536)	$ (1,163)	$ (106,699)
2018	(105,536)	(1,163)	(106,699)
2019	(105,542)	(1,913)	(107,455)
2020	12,337	565	12,902
	$ (304,277)	$ (3,674)	$ (307,951)

E. Actuarial Assumptions - SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

NOTE 8 – DEFINED BENEFIT PENSION PLANS (continued)

E. Actuarial Assumptions – SERS (continued)

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2015, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
Total	100.00 %	

NOTE 8 – DEFINED BENEFIT PENSION PLANS (continued)

E. Actuarial Assumptions – SERS (continued)

Discount Rate The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School proportionate share of the net pension liability	$208,996	$150,721	$101,649

In April 2016, the SERS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of June 30, 2015. The most significant change is a reduction in the discount rate from 7.75 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the School's net pension liability is expected to be significant.

F. Actuarial Assumptions - STRS

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

NOTE 8 – DEFINED BENEFIT PENSION PLANS (continued)

F. Actuarial Assumptions – STRS (continued)

Actuarial assumptions used in the June 30, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	100.00 %	

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the School's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the School's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School proportionate share of the net pension liability	$766,395	$551,730	$370,199

NOTE 9 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Health Care Plan Description –The School contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) 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 as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, SERS did not allocate any employer contributions to the Health Care Fund. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was $23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of the employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge.

The School's contributions for healthcare (including surcharge) for fiscal year ended June 30, 2016, 2015, and 2014 was $0, $1,385, and $158, respectively.

B. State Teachers Retirement System of Ohio

Plan Description – The School contributes to the cost sharing multiple employer defined benefit Health 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 or by calling (888) 227-7877.

NOTE 9 - POSTEMPLOYMENT BENEFITS

B. State Teachers Retirement System of Ohio

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 2016, STRS Ohio did not allocate employer contributions to post employment health care. The School's contributions for health care for the fiscal year ending June 30, 2016, 2015, and 2014 were $0, $0, and $2,014, respectively; 100 percent has been contributed for fiscal year 2016, 2015 and 2014.

NOTE 10 - LOAN PAYABLE

On October 31, 2014 the School received a settlement amount of $100,000 that would need to be paid back to Education Alternatives. The execution of this agreement was that both parties would enter into the Day Treatment Service Agreement, where the days enrolled for each student would determine the amount being paid.

	Balance 07/01/2015	Additions	Reductions	Balance 06/30/2016
Operating Loan	$ 15,735	$ 84,265	$ 0	$ 100,000

NOTE 11 – AGREEMENT WITH THE EDUCATIONAL EMPOWERMENT GROUP, LLC

Effective January 12, 2015, the School entered into a management agreement (the "Agreement") with The Educational Empowerment Group, LLC ("EEG"), which is an educational consulting and management company. The Agreement with EEG will expire on June 30, 2016 and will renew for an additional one year term. The School is required to pay EEG a monthly continuing fee of twelve percent of the School's "Qualified Gross Revenues", defined in the Agreement as the revenue received per student by the School from the State pursuant to the Ohio Revised Code.

NOTE 11 – AGREEMENT WITH THE EDUCATIONAL EMPOWERMENT GROUP, LLC (continued)

In exchange for the fees outlined above, EEG supports the school with the following functions:

- Implementing the educational program and the program of instruction;
- Day-to-day supervision of administrative and teaching staff;
- Designing strategic plans for the continuing success of the School;
- Assist in identifying and applying for grants as well as providing recommendations on spending and assist in the spending of any grant funding obtained in compliance with the specific terms and conditions of said grants;
- Designing, coordinating and managing the public relations strategy for the development of beneficial and harmonious relationships with other organizations, the community and agencies;
- Providing the Board a report of budgeted expenses and assisting the Fiscal Officer in providing financial information required by the Sponsor, Charter School, Ohio State Department of Education or its auditors;
- Compliance management;
- Provide and maintain Student Records;
- Ensure compliance with applicable laws and regulations concerning services to Special Needs Students;
- Facility Planning;
- Procurement and management of equipment, furniture and property;
- Selection of the superintendent or educational leaders and establishment of employment terms.

The School had Management fees of $70,717 paid to EEG for such services for the year ended June 30, 2016.

NOTE 12 – SUBSEQUENT EVENTS

The School permanently ceased operations on June 30, 2017. The Ohio Department of Education (ODE) has performed a full-time equivalent (FTE) student review to determine if the School owes or is entitled to additional funds form the ODE for State Foundation payments made for fiscal year 2017. A final review has not been performed; however, a preliminary determination requires the School to refund $27,154 to ODE for State Foundation overpayments. A final determination will be made at a later date that could require the School to pay additional funds to ODE or may result in a refund.

NOTE 13 – RECEIVABLES

Receivables at June 30, 2016 consisted of intergovernmental receivables arising from grants, entitlements and accounts receivable from miscellaneous governments. All receivables are considered collectible in full. A summary of intergovernmental receivables follows:

Funding Source	Amount
Foundation Revenues:	
JV 56 Adjustment	$ 18,162
Federal Grants:	
Title I	2,691
Total Intergovernmental Receivable	$ 20,853

QUEST COMMUNITY SCHOOL
CUYAHOGA COUNTY, OHIO

Required Supplementary Information
Schedule of the School's Proportionate Share of the Net Pension Liability
School Employees Retirement System of Ohio
Last Three Fiscal Years (1)

	2015	2014	2013
School's Proportion of the Net Pension Liability	0.0026414%	0.0039020%	0.0039020%
School's Proportionate Share of the Net Pension Liability	$ 150,721	$ 197,478	$ 232,039
School's Covered-Employee Payroll	$ 168,976	$ 112,740	$ 67,359
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	89.20%	175.16%	344.48%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	71.70%	65.52%

(1) Information prior to 2013 is not available.

Amounts presented as of the School's measurement date which is the prior fiscal year end.

QUEST COMMUNITY SCHOOL
CUYAHOGA COUNTY, OHIO

Required Supplementary Information
Schedule of the School's Proportionate Share of the Net Pension Liability
State Teachers Retirement System of Ohio
Last Three Fiscal Years (1)

	2015	2014	2013
School's Proportion of the Net Pension Liability	0.00199634%	0.00194849%	0.00194849%
School's Proportionate Share of the Net Pension Liability	$ 551,730	$ 473,940	$ 564,554
School's Covered-Employee Payroll	$ 148,914	$ 201,408	$ 375,800
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	370.50%	235.31%	283.58%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.10%	74.70%	69.30%

(1) Information prior to 2013 is not available.

Amounts presented as of the School's measurement date which is the prior fiscal year end.

QUEST COMMUNITY SCHOOL
CUYAHOGA COUNTY, OHIO

Required Supplementary Information
Schedule of School Contributions
School Employee Retirement System of Ohio
Last Five Fiscal Years

	2016	2015	2014	2013	2012
Contractually Required Contribution	$ 6,435	$ 22,271	$ 15,626	$ 9,322	$ 8,991
Contributions in Relation to the Contractually Required Contribution	(6,435)	(22,271)	(15,626)	(9,322)	(8,991)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
School Covered-Employee Payroll	$ 45,964	$ 168,976	$ 112,740	$ 67,359	$ 66,850
Contributions as a Percentage of Covered-Employee Payroll	14.00%	13.18%	13.86%	13.84%	13.45%

QUEST COMMUNITY SCHOOL
CUYAHOGA COUNTY, OHIO

Required Supplementary Information
Schedule of School Contributions
State Teachers Retirement System of Ohio
Last Five Fiscal Years

	2016	2015	2014	2013	2012
Contractually Required Contribution	$ 24,306	$ 20,848	$ 26,183	$ 48,854	$ 175,899
Contributions in Relation to the Contractually Required Contributior	(24,306)	(20,848)	(26,183)	(48,854)	(175,899)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
School Covered-Employee Payroll	$ 173,614	$ 148,914	$ 201,408	$ 375,800	$ 1,353,069
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	13.00%	13.00%	13.00%

This page intentionally left blank.

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 Rd. #4/5
Parma, OH 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, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated December 5, 2017, wherein we noted the School permanently closed as of June 30, 2017.

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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2016-001 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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2016-001.

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.

Dave Yost

Dave Yost
Auditor of State
Columbus, Ohio

December 5, 2017

SCHEDULE OF FINDINGS
JUNE 30, 2016

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

FINDING NUMBER 2016-001

Noncompliance Finding / Material Weakness – Student Attendance

Ohio Rev. Code § 3314.08 provides a formula by which community schools are funded. Community schools receive funding from the State through the per-pupil foundation allocation. Each community school reports student enrollment to the Ohio Department of Education (ODE) through the Education Management Information System (EMIS) and is responsible for accurate and timely reporting of student enrollment data. Students absent for 105 consecutive hours are required to be withdrawn immediately. Based on the reported enrollment in EMIS, ODE distributes foundation revenue to each community school.

For two out of five students tested for withdrawal during the year, the students were absent for 105 consecutive hours and were not withdrawn immediately. Students were absent 198 and 234 consecutive hours before being withdrawn.

Failure to withdraw students timely and within the time frame required by the Ohio Revised Code stipulates leads to the School receiving more funding than it is entitled to from ODE and could result in material repayments of future foundation revenue.

The School should remove students as of the date they are absent for 105 consecutive hours and ensure all other withdrawals are made in a timely manner.

Officials' Response: We did not receive a response from Officials to this finding

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
DECEMBER 26, 2017