

**QUEST PREPARATORY ACADEMY**  
**FINANCIAL STATEMENTS**  
**WITH SUPPLEMENTAL INFORMATION**  
**FOR THE YEAR ENDED JUNE 30, 2017**

**QUEST PREPARATORY ACADEMY**  
**FOR THE YEAR ENDED JUNE 30, 2017**

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## INDEPENDENT AUDITOR'S REPORT

To the Receiver  
Quest Preparatory Academy

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Quest Preparatory Academy, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Quest Preparatory Academy as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter Regarding Going Concern**

The accompanying financial statements have been prepared assuming that Quest Preparatory Academy will continue as a going concern. As discussed in Note 2, the SPCSA appointed a receiver to address their concerns and to assist the Academy with fiscal management. The receiver has successfully settled all but one of the long term leases and contracts. However, there is still uncertainty related to the Bridger campus location and academic performance. These conditions raise doubt about the Academy's ability to continue as a going concern. Management's plans, including an academic turnaround plan, regarding these matters also are described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinions are not modified with respect to this matter.

### **Emphasis of Matter Regarding Prior Period Adjustments**

As discussed in Note 3, the financial statements have been corrected for the recording of deferred outflows related to Public Employees' Retirement System and to correct the overstatement of payroll liabilities. Our opinions are not modified with respect to this matter.

## **Other Matters**

### *Required Supplemental Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 10, budgetary comparison information on pages 38 through 41 and the schedules the Academy's proportionate share of the net pension liability and pension contributions on pages 42 through 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting 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 assurance.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2017 on our consideration of Quest Preparatory Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion 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 Quest Preparatory Academy's internal control over financial reporting and compliance.

*Bradshaw Smith & Co, LLP*

Las Vegas, Nevada  
December 1, 2017

## **QUEST PREPARATORY ACADEMY**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

#### **FOR FISCAL YEAR ENDED JUNE 30, 2017**

As management of Quest Preparatory Academy, hereafter referred as "the Academy", we offer readers of the Academy's financial statements this narrative overview and analysis of the financial activities of the Academy for the fiscal year ended June 30, 2017. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Academy's financial statements, which follow this narrative.

#### **Financial Highlights**

- Total current assets increased approximately \$799,804, which was principally from an increase in cash resulting from reduced payment of rent for school campus leases as a result of settlements with landlords and court rulings.
- Total current liabilities decreased \$1,277,586, due to the Academy paying delinquent PERS contributions of \$339,986, a reduction in payroll accruals of \$119,077, primarily due to a reduced workforce with the closing of the high school, a reduction of the capital lease obligation of \$338,376 upon negotiations and return of the secured furniture and equipment in settlement and settlement of other open payables and obligations.
- Total long-term liabilities increased \$1,200,261 of which \$1,174,533 related to an increase in the net pension liability and \$25,728 related to operations, primarily an increase in the accrual for compensated absences.
- Enrollment decreased by approximately 500 students primarily as a result of closing the high school after the 2015/2016 school year and State per pupil funding decreased revenues \$1,174,058 from prior year.

#### **Overview of the Financial Statements**

Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the basic audited financial statements and required supplementary information. The MD&A represents management's examination and analysis of the Academy's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the Academy's strategic plan, budget, and other management tools were used for this analysis.

The financial statements report information about the Academy using modified accrual accounting to present the general fund of the Academy and the accrual basis of accounting to convert the fund for presentation in the government wide financial statements. The financial statements of the Academy have been prepared in accordance with generally accepted accounting principles as it applies to governmental units. The financial statements include the Statement of Net Position and Governmental Funds Balance Sheet, Statement of Activities and Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance, and Notes to the Financial Statements.

The Governmental Funds Balance Sheet and the Statement of Net Position present the financial position of the Academy on a modified accrual historical cost basis for the general fund of the Academy and the accrual basis of accounting to convert the fund for presentation in the government wide financial statements, respectively. The statements present information on all of the Academy's assets and deferred outflows and liabilities and deferred inflows, with the difference reported as net position. Over time, increases and decreases in net position are an indicator of whether the financial position of the Academy is improving or deteriorating.

## **QUEST PREPARATORY ACADEMY**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

#### **FOR FISCAL YEAR ENDED JUNE 30, 2017**

While the Statement of Net Position and Governmental Funds Balance Sheet provides information about the nature and amount of resources and obligations at year-end, the Statement of Activities and Governmental Funds Revenues, Expenditures, and Changes in Fund Balance present the results of the activities over the course of the fiscal year and information as to how the fund balances changed during the year. All changes in fund balances are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. These statements also provide certain information about the Academy's recovery of its costs.

The Notes to the Financial Statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Academy's accounting policies, significant account balances, activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

The financial statements were prepared from the detailed books and records of the Academy. The financial statements were audited and adjusted, if material, during the independent external audit process.

#### **Summary of Organization and Business**

Quest Preparatory Academy organized in 2008 to operate a public charter school sponsored by the Nevada Department of Education. The Academy operates kindergarten to eighth grade levels in Clark County. The Academy entered into a Charter School Contract with the State Public Charter School Authority in January 2014. The contract is for a term of six years unless terminated earlier under provisions outlined in the contract.

A condensed statement of net position - governmental activities at June 30, 2017 and 2016 and a condensed statement of changes in net position - governmental activities for the years ended June 30, 2017 and 2016 are presented below.

# QUEST PREPARATORY ACADEMY

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR FISCAL YEAR ENDED JUNE 30, 2017

### Condensed Statement of Net Position - Governmental Activities As of June 30, 2017 and 2016

	June 30,			
	Operations	2017 GASB 68	As Reported	2016 as restated
<b>Assets:</b>				
Total current assets	\$ 2,378,403	\$ --	\$ 2,378,403	\$ 1,578,599
Total noncurrent assets	742,349	--	742,349	1,089,136
Total assets	3,120,752	--	3,120,752	2,667,735
<b>Deferred outflows of resources:</b>				
Deferred outflows relating to pensions	--	8,892,535	8,892,535	9,338,251
<b>Liabilities:</b>				
Total current liabilities	1,286,482	--	1,286,482	2,564,068
Total long-term liabilities	299,735	10,520,783	10,820,518	9,620,257
Total liabilities	1,586,217	10,520,783	12,107,000	12,184,325
<b>Deferred inflows of resources:</b>				
Deferred inflows relating to pensions	--	1,562,896	1,562,896	1,459,551
<b>Net position:</b>				
Invested in capital assets	704,740	--	704,740	527,777
Restricted	--	--	--	--
Unrestricted	829,795	(3,191,144)	(2,361,349)	(2,165,667)
Total net position	\$ 1,534,535	\$ (3,191,144)	\$ (1,656,609)	\$ (1,637,890)

### Financial Analysis

GASB 68, *Accounting and Financial Reporting for Pensions* requires the Academy to report its proportionate share of the Public Employee's Retirement System of Nevada's (PERS) net pension liability, deferred outflows of resources and deferred inflows of resources on the statement of net position. Deferred outflows consisted of employer contributions to PERS made during the year, net differences between projected and actual earnings on pension plan investments, and changes in proportion and differences between Academy contributions and proportionate share of contributions. Total long-term liabilities consisted of the net pension liability. Deferred inflows relating to pensions at June 30, 2017 consisted of differences between expected and actual experience, changes in proportion and differences between employer contributions and proportionate share of contributions. The net pension liability at June 30, 2017 and 2016 has created a deficit in net position.

Total current assets increased approximately \$799,804, which was principally from an increase in cash resulting from reduced payment of rent for school campus leases as a result of settlements with landlords and court rulings. Total noncurrent assets decreased approximately \$346,787, principally due to returning equipment and furniture used at the high school to the lender in settlement of the capital lease securing the equipment and furniture.

## **QUEST PREPARATORY ACADEMY**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

#### **FOR FISCAL YEAR ENDED JUNE 30, 2017**

Deferred outflows decreased \$445,716 due to a change in the proportion differences as reported by PERS mitigated by an increase in projected and actual investment earnings differences.

Total current liabilities decreased \$1,277,586, due to the Academy paying delinquent PERS contributions of \$339,986, a reduction in payroll accruals of \$119,077, primarily due to a reduced workforce with the closing of the high school, a reduction of the capital lease obligation of \$338,376 upon negotiations and return of the secured furniture and equipment in settlement and settlement of other open payables and obligations. Total long-term liabilities increased \$1,200,261 of which \$1,174,533 related to an increase in the net pension liability and \$25,728 related to operations, primarily an increase in the accrual for compensated absences.

Deferred inflows decreased \$103,345 due to an increase in changes in proportion differences mitigated by a change in projected and actual investment earnings differences, as reported by PERS.

Net position decreased \$18,719 from June 30, 2016 to June 30, 2017.

# QUEST PREPARATORY ACADEMY

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### FOR FISCAL YEAR ENDED JUNE 30, 2017

#### Condensed Changes in Net Position - Governmental Activities For the fiscal years ended June 30, 2017 and 2016

	2017			2016
	Operating	GASB 68	As Reported	as restated
<b>Revenue:</b>				
Program revenues:				
Charges for services	\$ 304,769	\$ --	\$ 304,769	\$ 252,927
Operating grants and contributions	576,842	--	576,842	333,207
Total program revenues	881,611	--	881,611	586,134
General revenues:				
Federal aid not restricted to specific purposes	--	--	--	--
State aid not restricted to specific purposes	8,173,191	--	8,173,191	9,347,249
Other local sources	13	--	13	11
Total general revenues	8,173,204	--	8,173,204	9,347,260
<b>Total revenues</b>	<b>9,054,815</b>	<b>--</b>	<b>9,054,815</b>	<b>9,933,394</b>
<b>Expenditures:</b>				
Instructional expenses	3,430,801	993,582	4,424,383	6,349,159
Support services	161,924	3,278	165,202	361,700
General administration	2,057,697	603,041	2,660,738	2,947,012
Facilities	1,025,437	37,439	1,062,876	1,207,474
Food service	556,016	64,050	620,066	769,667
Before and after care	100,065	22,204	122,269	540
Athletics/other	18,000	--	18,000	50,000
Total expenditures	7,349,940	1,723,594	9,073,534	11,685,552
<b>Change in net position</b>	<b>1,704,875</b>	<b>(1,723,594)</b>	<b>(18,719)</b>	<b>(1,752,158)</b>
<b>Fund balance:</b>				
Beginning of year, as restated	(170,340)	(1,467,550)	(1,637,890)	114,268
End of year	\$ 1,534,535	\$ (3,191,144)	\$ (1,656,609)	\$ (1,637,890)

## **QUEST PREPARATORY ACADEMY**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

#### **FOR FISCAL YEAR ENDED JUNE 30, 2017**

##### **Results of Operations**

**Revenues:** Program revenues consist mainly of funds received from the Nevada Department of Education for the special education program and food service program and charges to students for the lunch program, afterschool program, and athletics. Program revenues increased \$295,477. \$305,782 of the increase relates to an increase in the State funding of the special education program and \$141,840 of the increase is from bringing the afterschool program back in-house, which was outsourced in 2016. The increases were mitigated by a decrease in revenues from the food program and athletics with the closing of the high school.

General revenues received by the Academy are generated mostly through the support of the State of Nevada based on per pupil allocations and general donations. The decrease in our funding allocation from the State of Nevada was \$1,174,058 which was primarily the result of a decline in enrollment and a decrease in the per pupil allocation rate paid by the State.

**Expenditures:** For the fiscal year ended June 30, 2017, expenses were lower than prior year's expenses by \$2,612,018 primarily due to the closure of the high school. Instructional and support services decreased \$2,121,274 with a reduction in workforce, supplies and technology needs and food services decreased \$149,601 due to fewer students served. General and administration decreased \$286,274 due to a reduction in staffing, office expenses and supplies, partially mitigated by the upfront cost of the re-location of the Rancho campus.

##### **Analysis of General Fund**

As of June 30, 2017 the Academy's general fund reported a fund balance of \$921,986, an increase of \$1,559,108 in comparison with the prior year. The Academy's general fund revenues decreased \$1,191,787 and expenses decreased \$2,144,670. The Academy's revenues and expenses were reduced with the closure of the high school at the end of the 2015/2016 school year.

##### **Budgetary Highlights**

Revenues of the general fund were under budget by \$233,721. Consequently, general fund expenditures were under budget by \$521,943. Revenues of the special education fund were over budget by \$214,005 and special education fund expenditures were under budget \$256,435. Food service fund revenues were under budget by \$68,964 and expenses were over budget \$67,354 for the year ended June 30, 2017. The special education and food service funds excess expenditures over revenues were funded through transfers from the general fund.

## **QUEST PREPARATORY ACADEMY**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

#### **FOR FISCAL YEAR ENDED JUNE 30, 2017**

##### **Capital Assets**

As of June 30, 2017, the Academy had capital assets, net of accumulated depreciation of \$739,433. Capital assets included land, buildings, equipment, furniture and fixtures, and building improvements. For government-wide financial statement presentation, all depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year. Fund financial statements report capital asset purchases as expenditures.

During fiscal year 2017, capital assets, net of accumulated depreciation decreased \$334,128 due to depreciation of \$132,173 and disposal of net assets of \$218,455 associated with the closure of the high school mitigated by additions of \$16,500. Most of the furniture and equipment disposed of was returned to the secured lender in satisfaction of the outstanding capital lease obligation.

In April 2017, the Academy entered into a purchase agreement to purchase improved real property in southern Nevada for \$2,150,000. The property is currently under an operating lease for the Rancho campus. In connection with the agreement, the Academy made an earnest money deposit in the amount of \$164,404 which will be credited to the purchase price at closing. If the purchase is not completed, the earnest money will be forfeited. The SPCSA needs to approve the purchase. Under Nevada Revised Statutes 386.550 (1)(k), a charter school cannot use public funds to purchase real property without sponsor approval.

##### **Long-Term Debt**

The Academy's long-term debt consists of compensated absence liabilities, a note payable secured by a deed of trust, and the net pension liability.

##### **Economic Outlook**

The Academy recognizes the impact of the existing economic climate which impacts the limitations on both public and private funding. Management continuously analyzes the impact of State budget and other factors that impact per pupil funding for current and subsequent fiscal years. The Academy expects a decrease in enrollment with the re-location to the Rancho campus, continued uncertainty with the Bridger campus lease and a decline in academic performance results. Now that most of the leasing disputes and capital leases have been resolved, management is turning its focus on improving academic performance and is developing a turnaround plan. The Plan will increase expenditures with the retention of consultants to assist with assessing the current program, strategic planning and training staff.

##### **Requests for Information**

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Quest Preparatory Academy Business Office, 4025 N. Rancho Drive, Las Vegas, NV 89130. Contact number is (702) 631-4751.

**QUEST PREPARATORY ACADEMY**

**STATEMENT OF NET POSITION**

**JUNE 30, 2017**

	<b>Governmental activities</b>
<b>ASSETS</b>	
<b>Current assets:</b>	
Cash	\$ 1,529,503
Accounts receivable	554,900
Prepaid items, current portion	99,923
Deposits	194,077
Total current assets	<u>2,378,403</u>
<b>Noncurrent assets:</b>	
Prepaid items, net of current portion	2,916
Capital assets (net of accumulated depreciation of \$433,353)	739,433
Total noncurrent assets	<u>742,349</u>
Total assets	<u>3,120,752</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows relating to pensions	<u>8,892,535</u>
<b>LIABILITIES</b>	
<b>Current liabilities:</b>	
Accounts payable	550,698
Accrued expenses	400,457
Other current liabilities	327,262
Note payable, current portion	8,065
Total current liabilities	<u>1,286,482</u>
<b>Noncurrent liabilities:</b>	
Compensated absences, net of current portion	108,703
Note payable, net of current portion	191,032
Net pension liability	10,520,783
Total noncurrent liabilities	<u>10,820,518</u>
Total liabilities	<u>12,107,000</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows relating to pensions	<u>1,562,896</u>
<b>NET POSITION</b>	
Invested in capital assets	704,740
Unrestricted	(2,361,349)
Total net position	<u>\$ (1,656,609)</u>

**QUEST PREPARATORY ACADEMY**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2017**

		Program revenues			Net (expense) revenues and changes in net assets
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities
<b>Governmental activities:</b>					
Instruction:					
Regular instruction	\$ (3,968,966)	\$ --	\$ --	\$ --	\$ (3,968,966)
Special instruction	(455,417)	--	440,586	--	(14,831)
Total instruction	(4,424,383)	--	440,586	--	(3,983,797)
Support services:					
General administration	(2,660,738)	--	--	--	(2,660,738)
Facilities	(1,062,876)	--	--	--	(1,062,876)
Support	(165,202)	102,148	2,795	--	(60,259)
Total support services	(3,888,816)	102,148	2,795	--	(3,783,873)
Operation of non-instructional services:					
Food service	(620,066)	42,648	133,461	--	(443,957)
Before and after care	(122,269)	141,893	--	--	19,624
Athletics/other	(18,000)	18,080	--	--	80
Total non-instructional services	(760,335)	202,621	133,461	--	(424,253)
<b>Total governmental activities</b>	<b>\$ (9,073,534)</b>	<b>\$ 304,769</b>	<b>\$ 576,842</b>	<b>\$ --</b>	<b>(8,191,923)</b>
<b>General revenues:</b>					
Federal aid not restricted to specific purposes					--
State aid not restricted to specific purposes					8,173,191
Other local sources					13
<b>Total general revenues</b>					<b>8,173,204</b>
<b>Change in net position</b>					<b>(18,719)</b>
<b>Net position - beginning of the year (as restated)</b>					<b>(1,637,890)</b>
<b>Net position - end of the year</b>					<b>\$ (1,656,609)</b>

# QUEST PREPARATORY ACADEMY

## GOVERNMENTAL FUNDS BALANCE SHEET

JUNE 30, 2017

	<u>General</u>	<u>Special education</u>	<u>Other governmental</u>	<u>Total funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,495,367	\$ --	\$ 34,136	\$ 1,529,503
Accounts receivable, net of allowance	554,900	--	--	554,900
Prepaid items	99,629	2,087	1,123	102,839
Deposits	29,673	--	--	29,673
Due from other funds	--	36,790	--	36,790
Total assets	<u>\$ 2,179,569</u>	<u>\$ 38,877</u>	<u>\$ 35,259</u>	<u>\$ 2,253,705</u>
<b>LIABILITIES AND FUND BALANCE</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 540,763	\$ 4,880	\$ 5,055	\$ 550,698
Accrued expenses	344,703	31,910	23,844	400,457
Other current liabilities	327,262	--	--	327,262
Notes payable	8,065	--	--	8,065
Due to other funds	36,790	--	--	36,790
Total liabilities	<u>1,257,583</u>	<u>36,790</u>	<u>28,899</u>	<u>1,323,272</u>
<b>Fund balance:</b>				
Nonspendable (prepaids and security and purchase deposits)	129,302	2,087	1,123	132,512
Restricted for:				
Scholarships	--	--	450	450
Unassigned	792,684	--	4,787	797,471
Total fund balance	<u>921,986</u>	<u>2,087</u>	<u>6,360</u>	<u>930,433</u>
Total liabilities and fund balance	<u>\$ 2,179,569</u>	<u>\$ 38,877</u>	<u>\$ 35,259</u>	<u>\$ 2,253,705</u>

## QUEST PREPARATORY ACADEMY

### RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION

JUNE 30, 2017

Total fund balances - governmental fund and balance sheet	\$ 930,433
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The total cost of capital assets is \$1,172,786 plus a deposit on real property of \$164,404 and the related accumulated depreciation is \$433,353	903,837
Some liabilities are not due and payable in the current period and therefore, are not reported in the funds:	
Compensated absences	(108,703)
Net pension liability	(10,520,783)
Notes payable	(191,032)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:	
Deferred outflows of resources related to pension expense	8,892,535
Deferred inflows of resources related to pension expense	(1,562,896)
Net position of governmental activities – statement of net position	<u>\$ (1,656,609)</u>

**QUEST PREPARATORY ACADEMY**

**STATEMENT OF GOVERNMENTAL FUNDS REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES**

**FOR THE YEAR ENDED JUNE 30, 2017**

	<b>General</b>	<b>Special education</b>	<b>Other governmental</b>	<b>Total governmental funds</b>
<b>Revenues:</b>				
Local sources	\$ 104,956	\$ --	\$ 202,621	\$ 307,577
State sources	8,173,191	359,154	--	8,532,345
Federal sources	--	81,433	133,461	214,894
Other financing sources	--	--	--	--
	<u>8,278,147</u>	<u>440,587</u>	<u>336,082</u>	<u>9,054,816</u>
<b>Expenditures:</b>				
Instruction:				
Regular	3,083,662	--	--	3,083,662
Special	--	346,722	--	346,722
Support services:				
General administration	2,094,475	--	--	2,094,475
Facilities	1,028,474	17,950	--	1,046,424
Support	86,945	78,130	--	165,075
Operation of non- instructional services:				
Food service	--	--	527,486	527,486
Before and after care	--	--	98,454	98,454
Athletics/other	--	--	18,000	18,000
Expenditures prior to debt service	<u>6,293,556</u>	<u>442,802</u>	<u>643,940</u>	<u>7,380,298</u>
Debt service	<u>112,833</u>			<u>112,833</u>
Total expenditures	<u>6,406,389</u>	<u>442,802</u>	<u>643,940</u>	<u>7,493,131</u>
Excess of revenues over (under) expenditures	<u>1,871,758</u>	<u>(2,215)</u>	<u>(307,858)</u>	<u>1,561,685</u>
<b>Other financing sources (uses):</b>				
Transfers in	--	4,302	308,348	312,650
Transfers out	(312,650)	--	--	(312,650)
	<u>(312,650)</u>	<u>4,302</u>	<u>308,348</u>	<u>--</u>
Net change in fund balances	1,559,108	2,087	490	1,561,685
<b>Fund balance:</b>				
Beginning of year, as restated	<u>(637,122)</u>	<u>--</u>	<u>5,870</u>	<u>(631,252)</u>
End of year	<u>\$ 921,986</u>	<u>\$ 2,087</u>	<u>\$ 6,360</u>	<u>\$ 930,433</u>

## QUEST PREPARATORY ACADEMY

### RECONCILIATION OF THE STATEMENT OF GOVERNMENTAL FUNDS REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2017

Net change in governmental fund balance	\$ 1,561,685
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
The acquisition of capital assets are reported in the governmental funds as expenditures. However, for governmental activities those costs are shown as capital assets in the statement of net position and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount that the current year's capital asset purchases of \$16,500 plus deposit on real property of \$164,404 exceeded depreciation expense of \$132,173 and gain on disposal of \$23,463 in the current period.	72,194
Settlement fee earned but not available is not reported as revenue in the fund. This is the related bad deb write-off of amounts deemed uncollectible in the current year.	(6,600)
Compensated absences are not reported in the fund unless due and payable	(35,239)
Governmental funds report rent as expenditures as due. However, in the SOA, rent is reported on the straight-line basis.	--
Deferred inflows and outflows of resources and net pension liability are applicable to future periods and therefore are not reported in the governmental fund. The net change is as follows:	
Deferred outflows related to pensions	(445,716)
Deferred inflows related to pensions	(103,345)
Net pension liability	(1,174,531)
Long-term liabilities are not due and payable in the current period and are not reported in the fund financial statements. This is the amount that principal payments exceed proceeds from new loans during the year.	112,833
Changes in net position of governmental activities – statement of activities	<u>\$ (18,719)</u>

# QUEST PREPARATORY ACADEMY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

### 1. Reporting entity and summary of significant accounting policies:

The financial statements of Quest Preparatory Academy (the "Academy") have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to local governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the Academy are described below.

#### *Reporting entity:*

The Academy is a charter school established in 2008 under Nevada Revised Statutes ("NRS"). The Academy's major operation is to offer academic programs for grades kindergarten through eighth grade for students in Clark County.

Under the approval by the Nevada Department of Education to operate as a charter school, the Academy entered into agreements with the State Public Charter School Authority. The charter renewal contract is effective for the period July 1, 2014 through June 30, 2020. Under the agreements, the Academy agrees to comply with the current statutes and regulations regarding the creation and operation of the Academy, including but not limited to NRS 386.509 to 386.610 and 388A and Nevada Administrative Code ("NAC") 286.210. The Academy receives funding from state and government sources and must comply with the requirements of these funding sources.

#### *Basis of presentation:*

The accompanying financial statements have been prepared in accordance with the model defined by GASB Codification (previously referred to as GASB Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments ("GASB 34")).

Accounting principles generally accepted in the United States of America require the Academy to apply all applicable pronouncements of the GASB. The Academy is also required to follow the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Academy is given the option of whether to apply all FASB ASC issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements. Accordingly, the Academy has elected to implement non-conflicting FASB ASC issued after November 30, 1989.

#### *Government-wide and fund financial statements:*

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include (1) charges to students who purchase, use, or directly benefit from goods and services provided and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Grants and other revenues received for general purposes and not included among program revenues are reported instead as general revenues.

## QUEST PREPARATORY ACADEMY

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2017

#### 1. Reporting entity and summary of significant accounting policies (continued):

*Measurement focus, basis of accounting and financial statement presentation:*

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Revenues from the Nevada Department of Education are recognized as revenues in the year for which they are allocated. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. For the most part, the effect of inter-fund activity has been removed from these statements.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal year period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

The general fund is the Academy's primary operating fund. It accounts for all financial resources of the Academy relating to regular education and for resources used in the acquisition of capital assets. The food service, athletic, before and after school care and other activities have been combined and are presented as non-major funds. The food service, athletic, and other activities funds are not considered enterprise funds as the pricing policies are not high enough to recover the related costs. Special revenue funds are used to account for the specific proceeds of revenue sources that are legally restricted for specified purposes. The Academy's financial statements present the special education and food service funds as special revenue funds. The special education fund is used to account for funds restricted for use for financial resources relating to special education. The food service fund is used to account for funds restricted for use of providing meals to students. Transfers between the general fund and the other funds are performed regularly as the activity flows through the general fund initially.

Under the terms of grant agreements, the Academy funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Academy's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

## QUEST PREPARATORY ACADEMY

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2017

#### 1. Reporting entity and summary of significant accounting policies (continued):

##### *Cash and cash equivalents:*

The Academy defines cash and cash equivalents as cash and investments with an initial maturity of three months or less. The Academy's cash and cash equivalents are categorized in these three categories of credit risk:

- Category 1 Insured or collateralized with securities held by entity or by its agent in the Academy's name.
- Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the Academy's name.
- Category 3: Uncollateralized.

##### *Accounts receivable:*

The accounts receivable balance consists mainly of amounts due from grants. For the amounts that are not collected within 60 days after year end and relate to the current fiscal year, the balance is not recorded on the governmental fund of the Academy. The accounts receivable balance on the government-wide financial statements includes an allowance of \$0 for the amount deemed uncollectible.

##### *Capital assets:*

The Academy's capital assets are recorded at original cost. Donated assets are listed at their estimated fair value at the date of donation. It is the Academy's policy to capitalize individual assets costing more than \$5,000 with an estimated useful life of three or more years. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. The cost of normal repairs and maintenance that does not add to the value of the asset or materially extend the life of the asset is not capitalized. All assets are depreciated using the straight-line method. For furniture and equipment, the useful life is three to five years. For buildings and improvements the useful life is thirty nine (39) years and for tenant improvements, the life is the term of the applicable lease which range from ten (10) to twenty five (25) years. Acquisitions of fixed assets are considered expenditures in the year of purchase and are not reflected on the governmental fund balance sheet.

# QUEST PREPARATORY ACADEMY

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2017

### 1. Reporting entity and summary of significant accounting policies (continued):

#### *Compensated absences:*

Compensated absences are accounted for in accordance with GASB Codification, which requires that a liability for compensated absences relating to services already rendered and that are not contingent on a specified event, be accrued as employees earn the right to the benefits. Compensated absences relating to future services or that are contingent on a specified event will be accounted for in the period those services are rendered or those events take place.

The Academy's employees earn personal time off (PTO), depending on the job classification and other factors. In the event that PTO is not used by the end of the school year, employees may rollover unused PTO time up to a maximum of thirty (30) days to be used in future years of service. Upon termination of service, unused PTO, up to 30 days, will be paid out. The Academy accrues a liability for compensated absences reported in the government-wide financial statements. A liability for compensated absences is reported in the governmental fund financial statement only if the liability has matured, for example, as a result of employee resignations and terminations.

#### *Long-term liabilities:*

Long-term liabilities to be repaid from governmental resources are reported as liabilities in the government-wide statements. Long-term liabilities consist primarily of notes payable and net pension liability. Long-term liabilities for governmental funds are not reported as liabilities in the fund financial statements. Debt proceeds are reported as other financing sources and payment of principal and interest is reported as expenditures.

#### *Deferred rent expense:*

The Academy has entered into several lease agreements to lease facilities for school campuses. Some of the lease agreements contain escalated base rental payments. In the government-wide financial statements, the lease agreements are being amortized over the life of the respective lease on a straight-line method.

#### *Pension expense and related liabilities, deferred inflows and deferred outflows:*

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to the pension, and pension expense, information about the fiduciary net position of the Public Employees' Retirement System of Nevada ("PERS") and additions to/deductions from PERS fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms.

## QUEST PREPARATORY ACADEMY

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2017

#### 1. Reporting entity and summary of significant accounting policies (continued):

##### *Fund balance:*

In the governmental fund financial statements, the fund balance is classified as nonspendable, restricted, committed, assigned, or unassigned. Nonspendable fund balance cannot be spent because they are either (a) not in spendable form - prepaid items or inventories; or (b) legally or contractually required to be maintained intact. Restricted fund balance has limitations imposed by creditors, grantors, or contributors or by enabling legislation or constitutional provisions. Committed fund balance is a limitation imposed by the Governing Board through approval. Assigned fund balances reflect amounts constrained by the Board's intent to be used for specific purposes, but are neither restricted nor committed. These constraints are imposed by the Governing Board or a designee appointed by the Board. Unassigned fund balance in the General Fund is the net resources in excess of what can be properly classified in one of the above four categories.

Net position in the government-wide financial statements is classified as net investment in capital assets, restricted and unrestricted. Net investment in capital assets represents capital assets, net of accumulated depreciation and reduced by the outstanding balances of any mortgages, notes or other borrowings attributable to the acquisition, construction or improvement of those assets. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by the law through state statute. Unrestricted net position represents all other net position that does not meet the definition of net investment in capital assets or restricted.

When both restricted and unrestricted fund balances are available for use, it is the Academy's policy to use restricted fund balance first, then unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

##### *Budget data:*

The Academy prepares an annual budget. The annual budget is prepared on a basis similar to generally accepted accounting principles under the modified accrual basis of accounting. All annual appropriations lapse at fiscal year end. The budget does not include capital outlay.

## QUEST PREPARATORY ACADEMY

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2017

#### 1. Reporting entity and summary of significant accounting policies (continued):

##### *Use of estimates:*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from the estimates.

##### *Pension:*

The Academy participates in a cost sharing deferred benefit plan and reports their proportionate share of the plan's net pension liability or asset, deferred outflows of resources, and deferred inflows of resources in their statement of net position.

#### 2. Going concern:

The accompanying financial statements have been prepared assuming the Academy will continue as a going concern. The Academy has resolved all but one of the lease disputes and has settled the capital leases with a return of the furniture and equipment. The Academy is in the process of developing an academic turn around program. The ability to continue as a going concern is dependent upon the Academy's successful negotiation with the landlord and/or relocation of the Bridger campus, improvement of academic performance, and satisfaction of the requirements mandated by the SPCSA. The financial statements do not include any adjustments that might be necessary if the Academy is unable to continue as a going concern.

## QUEST PREPARATORY ACADEMY

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2017

#### 3. Prior period adjustment:

Net position and fund balance as of July 1, 2016 have been adjusted to correct errors relating to an under reporting of deferred outflows from PERS of \$8,448,390 and an overstatement of payroll liabilities of \$248,356. Had the errors not been made, change in net position would have increased \$2,347,980 along with a change in beginning net position as of July 1, 2015 of \$6,348,766 and change in fund balance would have increased \$248,356 for the year ended June 30, 2016. The correction of the errors increased net position and fund balance as of June 30, 2016 as follows:

##### Restatement of net position

Beginning net position as previously reported, June 30, 2016	\$ (10,334,636)
Prior period adjustment for GASB 68 deferred outflows for the Academy as of June 30, 2016	8,448,390
Prior period adjustment for the overstatement of payroll liabilities as of June 30, 2016	248,356
Total prior period adjustments	8,696,746
Net position, as restated, July 1, 2016	\$ (1,637,890)

##### Restatement of fund balance

Fund balance as previously reported, June 30, 2016	\$ (879,608)
Prior period adjustment for the overstatement of payroll liabilities as of June 30, 2016	248,356
Fund balance, as restated, July 1, 2016	\$ (631,252)

#### 4. Deposits:

The Academy is required by Nevada Statute to deposit funds into an account with a bank, credit union, or other financial institution in Nevada. The Academy maintains bank accounts in financial institutions located in Nevada. Custodial credit risk is the risk that, in the event of a bank failure, the Academy's deposits may not be available to the Academy. The Federal Deposit Insurance Corporation ("FDIC") offers the standard maximum deposit insurance amount of \$250,000 per depositor at each FDIC insured depository institution. As of June 30, 2017, the Academy's deposits exceeded the FDIC insured limit by \$1,560,850 but were collateralized by securities in the name of the Office of the State Treasurer.

# QUEST PREPARATORY ACADEMY

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**JUNE 30, 2017**

### 5. Interfund receivables, payables and transfers:

Due to/from other funds:

	<u>Receivables</u>	<u>Payable</u>
General fund	\$ --	\$ 36,790
Special education fund	36,790	--
Other governmental funds	--	--
	<u>\$ 36,790</u>	<u>\$ 36,790</u>

These balances result from the time lag between the dates that reimbursable expenditures occur and payments between funds are made.

In the fund financial statements, interfund transfers are shown as other financial sources or uses.

Transfers between funds during the year ended June 30, 2017 are as follows:

	<u>Transfers in</u>		
	<u>Special education</u>	<u>Non-major governmental</u>	<u>Total</u>
Transfers out of general fund	\$ (13,648)	\$ 308,348	\$ 294,700

Transfers are used to move unassigned revenues collected in the general fund to finance various programs accounted for in other funds. All significant transfers during the fiscal year were either routine in nature or consistent with the activities of the fund making the transfer.

# QUEST PREPARATORY ACADEMY

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2017

### 6. Capital assets:

Capital asset activity for the year ended June 30, 2017 is as follows:

	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>Balance June 30, 2017</u>
Capital assets not being depreciated:					
Land (a)	\$ 50,000	\$ --	\$ --	\$ --	\$ 50,000
Capital assets being depreciated:					
Buildings (a)	407,016	--	--	--	407,016
Equipment	231,401	11,500	--	--	242,901
Furniture	701,807	5,000	(349,968)	--	356,839
Buildings and improvements	116,030	--	--	--	116,030
	<u>1,506,254</u>	<u>16,500</u>	<u>(349,968)</u>	<u>--</u>	<u>1,172,786</u>
Less accumulated depreciation:	<u>432,692</u>	<u>132,173</u>	<u>(131,512)</u>	<u>--</u>	<u>433,353</u>
	<u>\$ 1,073,562</u>	<u>\$ (115,673)</u>	<u>\$ (218,456)</u>	<u>\$ --</u>	<u>\$ 739,433</u>

- (a) The land and building purchased in July 2012 without prior approval of the state of Nevada, as required by Nevada Revised Statute 386.550(1)(k), is subject to a lien by the state of Nevada in addition to the first trust deed held by the lender.

Depreciation expense was charged to functions/programs of the Academy as follows:

	<u>Governmental activities</u>
Regular instruction	\$ 46,798
Special instruction	5,173
Student support	2,453
Facilities	16,393
General administration	33,077
Food service	28,279
	<u>\$ 132,173</u>

## QUEST PREPARATORY ACADEMY

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**JUNE 30, 2017**

#### **7. Accrued expenses:**

As of June 30, 2017, accrued expenses consisted of the following:

Accrued payroll and taxes	\$ 216,075
PERS payable	176,535
Credit card payables	7,847
	<u>\$ 400,457</u>

Payroll obligations are recognized in the period in which they are incurred. Teachers and staff work ten months from August to May but are paid over twelve months. Accrued payroll and taxes includes amounts owed to employees for services prior to June 30, 2017. Accrued payroll includes the payroll liabilities for the ten month employees for the pay dates including July 25, 2017 and August 10, 2017.

#### **8. Other current liabilities:**

As of June 30, 2017 other current liabilities consisted of the following:

Bridger settlement in excess of rents accrued in accounts payable	\$ 76,200
Reserve for claims being litigated and negotiated and legal costs	215,234
Other payables which are in dispute	35,438
Other liabilities	390
	<u>\$ 327,262</u>

#### **9. Note payable:**

As of June 30, 2017 note payable consisted of the following:

Note payable to a bank, secured by trust deed on real estate, bearing interest at the index plus 3.50% (3.00% if minimum deposit maintained) with a floor of 6.25% (5.75% if minimum deposit maintained), with monthly principal and interest payments of \$1,652 and a balloon payment due at maturity in July 2022. The minimum deposit of \$100,000 was not maintained during fiscal year 2017 resulting in the increased rate.	\$ 199,097
Less current maturities	(8,065)
Long-term portion	<u>\$ 191,032</u>

# QUEST PREPARATORY ACADEMY

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2017

### 9. Note payable (continued):

Scheduled principal payments on the note payable as of June 30, 2017, including current maturities are as follows:

<b><u>Year ending</u></b> <b><u>June 30,</u></b>	
2018	\$ 8,065
2019	8,652
2020	9,185
2021	9,815
2022	10,456
Thereafter	152,924
	<u>\$ 199,097</u>

Interest expense was charged to functions/programs of the Academy as follows:

	<b><u>Governmental</u></b> <b><u>activities</u></b>
Regular instruction	\$ --
Special instruction	--
Student support	--
Facilities	13,169
General administration	--
Food service	--
	<u>\$ 13,169</u>

## QUEST PREPARATORY ACADEMY

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2017

#### 10. Long term obligations:

The following is a summary of changes in the Academy's long term obligations for the year ended June 30, 2017:

	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2017</u>	<u>Amounts Due Within One Year</u>
<b>Governmental activities:</b>					
Compensated absences	\$ 73,630	\$ 35,073	\$ --	\$ 108,703	\$ --
Note - Kinder facility	207,408	--	(8,311)	199,097	8,065
Obligations under capital leases	338,376	--	(338,376)	--	--
Net pension liability	9,346,250	1,174,533	--	10,520,783	--
	<u>\$ 9,965,664</u>	<u>\$ 1,209,606</u>	<u>\$ (346,687)</u>	<u>\$ 10,828,583</u>	<u>\$ 8,065</u>

#### 11. Pension plan:

The Academy is a public employer participating in the Public Employees' Retirement System of the State of Nevada (PERS), a defined benefit cost-sharing multiple-employer pension plan for employees of state governmental employers. There were 105,167 covered employees in all of PERS on June 30, 2016. The Academy has no liability for unfunded obligations of the system as provided by NRS 286.110.

##### *Benefits provided:*

Benefits, as required by the Nevada Revised Statutes ("NRS" or "statute"), are determined by the number of years of accredited service at the time of retirement and the member's highest average compensation in any 36 consecutive months with special provisions for members entering the system on or after January 1, 2010 and July 1, 2015. Benefit payments to which participants or their beneficiaries may be entitled under the plan include pension benefits, disability benefits, and survivor benefits.

Monthly benefit allowances for members are computed at 2.5% of average compensation for each accredited year of service prior to July 1, 2001. For service earned on or after July 1, 2001, this multiplier is 2.67% of average compensation. For members entering the System on or after January 1, 2010, the multiplier is 2.5% for all years of service. Regular members entering the System on or after July 1, 2015 have a 2.5% multiplier. The System offers several alternatives to the unmodified service retirement allowance which, in general, allows the retired employee to accept a reduced service retirement allowance payable monthly during his or her lifetime and various optional monthly payments to a named beneficiary after his or her. Post-retirement increases are provided by authority of NRS 286.575-.579.

## QUEST PREPARATORY ACADEMY

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2017

#### 11. Pension plan (continued):

##### *Contributions:*

Member contribution rates, which are actuarially determined, are established by NRS 286.421 for public employees enrolled in the contribution plan. Two contribution plans are offered to eligible employees, the employee/employer contribution plan and the employer-pay contribution plan. The employee/employer plan increased the employee's salary by 14.36% for fiscal years 2017 and 2016. Under the employee/employer contribution plan, a contribution is deducted from the employee and a matching contribution is paid by the employer. The employer-pay contribution plan requires the employer to pay a contribution on a lower salary schedule. The rates for the employer-pay contribution plan for the years ended June 30, 2017, 2016, and 2015 were 28.00%, 28.00% and 25.75%, respectively. The rates for the employee/employer contribution plan for the years ended June 30, 2017, 2016 and 2015 were 14.50%, 14.50% and 13.25%, respectively. The Academy's required contribution for the years ended June 30, 2017, 2016 and 2015 was \$988,339, \$889,861, and \$933,871, respectively.

##### *Pension liabilities, expense and deferred outflows and inflows of resources related to pensions:*

As of June 30, 2017, the Academy reported a liability of \$10,520,783 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Academy's proportion of the net pension liability of PERS was based on the total contributions due on wages paid during the measurement period, which includes combined employer and member contributions relative to the total combined employer and member contributions for all employers participating in PERS for the period ended June 30, 2016. The Academy's proportion was .07818% for the measurement period ended June 30, 2016.

# QUEST PREPARATORY ACADEMY

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2017

### 11. Pension plan (continued):

*Pension liabilities, expense and deferred outflows and inflows of resources related to pensions:*

For the year ended June 30, 2017, the Academy recognized pension expense of \$2,385,930. As of June 30, 2017, the Academy reported deferred outflows of resources and deferred inflows of resources related to the pension from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience	\$ --	\$ 704,499
Changes in assumptions	--	--
Net difference between projected and actual earnings on pension plan investments	978,038	--
Changes in proportion and differences between Academy contributions and proportionate share of contributions	6,926,158	858,397
Academy contributions subsequent to the measurement date	988,339	--
	<u>\$ 8,892,535</u>	<u>\$ 1,562,896</u>

Deferred outflows of resources included \$988,339 related to academy contributions to PERS subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension as follows:

<u>Year ending June 30,</u>	
2018	\$ 1,271,310
2019	1,271,310
2020	1,560,219
2021	1,494,876
2022	816,408
Thereafter	(72,823)
	<u>\$ 6,341,300</u>

## QUEST PREPARATORY ACADEMY

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2017

#### 11. Pension plan (continued):

##### *Actuarial assumptions:*

PERS net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation rate	3.50%
Payroll growth	5.00% (including inflation)
Investment rate of return	8.00%
Productivity pay increase	0.75%
Projected salary increases	Regular 4.60%-9.75%, police/fire 5.25%-14.50%, depending on service
Consumer price index	3.50%

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an experience study for the period from July 1, 2006 through June 30, 2012.

Mortality rates for healthy members were based on the RP-2000 Combined Healthy Mortality Table projected to 2013, as appropriate, with adjustments for mortality improvements based on Scale AA. Healthy female ages were set back one year and police/fire were set forward one year. Disabled employees mortality rates were based on the RP-2000 Disabled Retiree Mortality Table projected to 2013 and were set forward three years.

##### *Investment returns:*

The target asset allocation for investments was adopted by the PERS Board, is reviewed by the PERS Board annually, and is designed to meet the future risk and return needs of PERS. The following was the target asset allocation policy as of June 30, 2016:

	Target allocation	Long-term geometric expected real rate of return*
Domestic equity	42.00%	5.50%
International equity	18.00%	5.75%
Domestic fixed income	30.00%	0.25%
Private markets	10.00%	6.80%

\* As of June 30, 2016, PERS' long-term inflation assumption was 3.50%

## QUEST PREPARATORY ACADEMY

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2017

#### 11. Pension plan (continued):

##### *Discount rate:*

The discount rate used to measure the total pension liability of PERS was 8.00% as of June 30, 2016. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the pension plan's fiduciary net position at June 30, 2016 was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2016.

The Academy's proportionate share of the net pension liability is sensitive to changes in the discount rate. The following presents the Academy's proportional share of the net pension liability calculated using the discount rate of 8.00%, as well as what the Academy's proportional share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.00%) and 1 percentage point higher (9.00%) than the current discount rate:

	1% Decrease (7.00%)	Discount rate (8.00%)	1% Increase (9.00%)
Academy's proportionate share of the net pension liability	\$ 15,421,417	\$ 10,520,783	\$ 6,443,522

##### *Pension plan fiduciary net position:*

PERS issues a publicly available financial report that includes financial statements and required supplemental information as well as a GASB 68 report. These reports may be obtained at [www.nvpers.org](http://www.nvpers.org). The plan's fiduciary net position has been determined on the same basis as that used by the plan.

#### 12. Operating leases:

In March 2017, the Academy entered into several lease agreements to lease space for the Rancho campus. The leases commenced in July and August 2017 and expire through July 2027. Monthly base rental payments are \$48,268 for the first twelve months and increase thereafter based on an annual 1% increase for one of the leases and based on a percentage of the DSA revenue increase for the other leases.

## QUEST PREPARATORY ACADEMY

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2017

#### 12. Operating leases (continued):

The Academy signed a sublease agreement with the Chartered for Excellence Foundation to sublease property on which the Bridger campus is located. The 25 year lease commenced on August 1, 2014, with an initial monthly lease payment of \$41,778, with annual 3% increases through July 31, 2039. The Academy determined the agreement was not entered into in good faith and discontinued honoring the agreement. The Academy has been litigating the lease and in October 2017, the court issued a preliminary injunction requiring payment of past due amounts calculated at \$13,650 per month and set a monthly rental rate of \$13,650 through July 2018. Trial is currently scheduled for July 10, 2018.

The Academy leases copy machines from Revco Leasing under a lease agreement with monthly payments of \$1,993 through January 2018.

The Academy leases electronic science textbooks under a lease with annual payments of \$5,832 expiring in August 2020.

The following is a schedule of future minimum lease payments under these operating leases for fiscal years ending June 30:

<b>Year ending June 30,</b>	
2018	\$ 731,471
2019	591,855
2020	574,184
2021	576,014
2022	577,862
Thereafter	<u>2,559,053</u>
	<u>\$ 5,610,439</u>

Lease expense under the operating leases totaled \$208,654 during the year ended June 30, 2017.

#### 13. Risk management:

The Academy purchased commercial insurance policies for various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; or injuries to employees. Payments of premiums for these policies are recorded as expenses of the Academy.

#### 14. Restrictions:

*Net position:*

Restricted net assets for the year ended June 30, 2017 consist of \$450 restricted for scholarships.

## QUEST PREPARATORY ACADEMY

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**JUNE 30, 2017**

#### **15. Commitments and contingencies:**

##### *Concentrations:*

The Academy received funding support of \$8,532,745 from the State of Nevada during the year ended June 30, 2017 which represents approximately 94% of total revenue.

The accounts receivable balance at June 30, 2017 includes \$549,049 due from the State of Nevada. This amount represents approximately 99% of the accounts receivable balance.

##### *Lien on real estate:*

In July 2012, the Academy purchased real property on which the kindergarten campus is operating. The property was purchased without prior approval of the State. The down payment was paid with DSA grant funds. Under Nevada Revised Statutes 386.550 (1)(k), a charter school cannot use public funds to purchase real property without sponsor approval. The State of Nevada, through the SPCSA has placed a lien on the subject property and may require repayment upon the sale of such property. As of June 30, 2017, the property, including land and building, reported a net book value of \$405,480 in the government-wide financial statements.

##### *Employment matters:*

In the ordinary course of business, claims have been filed with the U.S. Equal Employment Opportunity Commission and the Nevada Equal Rights Commission. The Academy is defending the matters. Although the outcome of these claims is not presently determinable, in the opinion of management, the resolution of these matters will not have a material adverse effect on the financial condition of the Academy.

##### *Chartered for Excellence Foundation and financial mismanagement:*

A forensic analysis ordered by the SPCSA determined a pattern of self-dealing amongst past board members of the Academy, financial mismanagement and lack of appropriate approval or pre-approval of significant contracts and agreements entered into by the Academy. As a result of concerns of the SPCSA and the results of the forensic analysis, the SPCSA installed a receiver at the Academy in October 2015 and is continuing to evaluate the status of the Academy's Charter Agreement.

Per Nevada Administrative Code 386.345, the board of an organization that conducts business with a charter school cannot have more than one common board member. As noted below, in prior years more than one common board member served on the boards of the Academy and Chartered for Excellence Foundation (the "Foundation"). Management has not determined the legal or financial impact, if any, resulting from the relationship between the Foundation and the Academy.

## QUEST PREPARATORY ACADEMY

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2017

#### 15. Commitments and contingencies (continued):

The Academy entered into several transactions with the Foundation. The Foundation was incorporated on January 31, 2014 as a non-profit corporation under Section 501(c)(3) of the Internal Revenue Code as a public charity. The mission of the Foundation was to support Nevada State charter schools in their daily operations, grant applications, and facilities management. During the year ended June 30, 2015, the Board of Trustees of the Foundation was controlled by members of the Academy's Board of Trustees and employees of the Academy. The President of both Boards of Trustees was the same individual, and the Superintendent of the Academy was on the Foundation Board of Trustees as were other Academy Board of Trustee members and employees. During the year ended June 30, 2016 the SPSCA mandated a receiver to govern the Academy and the Academy's Board was disbanded in October 2015.

On March 1, 2014, the Academy entered into an independent contractor agreement with the Foundation through the earlier of the chartered contract period or December 31, 2020. Under the agreement, the Foundation was to provide services for the purchase and acquisition of one or more permanent real estate sites, lease transportation vehicles, develop educational curriculum, develop a system of instruction, provide facilities management, facilitate forensic accounting services, apply for and prepare grants for the benefit of the Academy, develop a system of fundraising, and collect monies on behalf of the Academy for computer expenses. The Foundation was to be compensated for its services equal to 20% of the gross amount of any services or goods obtained on behalf of the Academy, except that subleasing arrangements with the Foundation which will be contracted for on a case by case basis. During the year ended June 30, 2016, the Academy determined the agreements were not entered into in good faith, discontinued honoring such agreements, and wrote-off any amounts potentially due under contracts. The Academy did not make any payments to the Foundation during the year ended June 30, 2017.

The Academy signed a sublease agreement with the Foundation to sublease property on which the Bridger campus is located. The 25 year lease commenced on August 1, 2014, with an initial monthly lease payment of \$41,778, with annual 3% increases through July 31, 2039. The Academy determined the agreement was not entered into in good faith and discontinued honoring the agreement. During the year ended June 30, 2016, the Academy wrote-off any amounts potentially due under the lease agreement and has not paid nor accrued rental expense on the Bridger property. The Academy is in the process of negotiating a fair and equitable lease directly with the landlord of the Bridger campus and, as disclosed in Note 16, a preliminary injunction was ordered by the Court for a temporary resolution.

Management has determined the Foundation is no longer in operation and does not believe it has an obligation to pay any amounts due under the agreements with the Foundation.

## QUEST PREPARATORY ACADEMY

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**JUNE 30, 2017**

#### **15. Commitments and contingencies (continued):**

##### *Lawsuits:*

In July 2016, the landlord of the Torrey Pines campus attempted to summarily evict Quest based on a number of alleged breaches of the lease, including non-payment of rent. In response, Quest filed an action in District Court against the landlord and its manager for injunctive relief to stop the eviction efforts and enforcement of the lease. On August 15, 2016 the Justice Court denied the Landlord's request to summarily evict Quest. In October 2017, the parties entered into a settlement agreement as disclosed in Note 16.

As previously disclosed under Chartered for Excellence Foundation and financial management, Quest subleased the Bridger campus from the Foundation. In late 2015 early 2016, the Foundation attempted to summarily evict Quest based on a number of alleged breaches of the lease, including non-payment of rent. In response, Quest filed an action in District Court against the Foundation for injunctive relief to stop the eviction efforts. On April 28, 2016, the Justice Court denied the Foundation's request to summarily evict Quest. On June 1, 2016 the District Court entered a preliminary injunction against the Foundation, preventing the Foundation from attempting to evict Quest to which the Foundation failed to respond. Subsequently, the Foundation dissolved and is no longer a legal entity. In September 2016, the Landlord attempted to summarily evict the Foundation and Quest based on a number of alleged breaches of the lease, including non-payment of rent. In response, Quest filed an amended complaint on November 4, 2016 adding the Landlord as a defendant. In October 2017, the court ordered a preliminary injunction for a temporary resolution as disclosed in Note 16.

The Academy leased space for the Roberson campus and the Centennial Office Suites under long term lease agreements. In association with the Roberson campus lease, the Academy had entered into financing arrangements for the construction of tenant improvements. In June 2016, the Academy entered into a settlement agreement with the lessor for \$35,000 in satisfaction of the lease agreements and related financing agreements. The lessor signed the settlement, but as of the report date has not cashed the settlement check from the Academy.

In November 2015, the Academy was named in a lawsuit for alleged non-payment of outstanding legal invoices totaling approximately \$35,000. In September 2017, Quest filed a counterclaim against the attorney for malpractice. A hearing on the matter is scheduled for January 29, 2018.

## QUEST PREPARATORY ACADEMY

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2017

#### 15. Commitments and contingencies (continued):

##### *Capital asset purchase:*

In April 2017 the Academy entered into an agreement to purchase improved real property in southern Nevada for \$2,150,000. The property is currently under an operating lease for the Rancho campus. In connection with the agreement, the Academy made an earnest money deposit in the amount of \$164,404 which will be credited to the purchase price at closing. If the purchase is not completed, the earnest money will be forfeited. The SPCSA needs to approve the purchase. Under Nevada Revised Statutes 386.550 (1)(k), a charter school cannot use public funds to purchase real property without sponsor approval.

#### 16. Subsequent events:

On October 12, 2017 Quest received a modification to the preliminary injunction in the matter with CSP-Bridger Avee, LLC and Chartered for Excellence Foundation. Under the modified preliminary injunction, Quest can continue to occupy the Bridger campus with a monthly lease rate of \$13,650 through July 2018. In satisfaction of unpaid rents, Quest was ordered to pay \$191,100 by November 30, 2017 for retroactive rental payments calculated at the rate of \$13,650 per month for the period from October 1, 2016 through November 1, 2017. As additional security, the preliminary injunction was increased by \$51,700, representing the difference between the sum of \$16,000 per month that CSP-Bridger maintains is the cost of maintaining the premises and the \$13,650 per month that Quest has been ordered to pay. Trial for this matter is presently scheduled for July 10, 2018.

On October 19, 2017, the lease dispute with Tower Distribution Center, LLC, landlord of the Torrey Pines Campus, was settled and Quest agreed to pay \$103,306 for past due rental payments. Quest vacated the property in June 2017.

The Academy's management has evaluated subsequent events for possible accounting recognition or disclosure through December 1, 2017, the date the financial statements were available for issuance.

**REQUIRED SUPPLEMENTARY INFORMATION**

# QUEST PREPARATORY ACADEMY

## REQUIRED SUPPLEMENTAL INFORMATION BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenue:</b>				
Local sources	\$ 404,513	\$ 404,513	\$ 104,956	\$ (299,557)
State sources	8,107,355	8,107,355	8,173,191	65,836
Federal sources	--	--	--	--
Other financing sources	--	--	--	--
Total revenue	8,511,868	8,511,868	8,278,147	(233,721)
<b>Expenditures:</b>				
Instruction:				
Regular instruction	3,340,934	3,340,934	3,083,662	257,272
Support services:				
General administration	1,530,559	1,530,559	2,094,475	(563,916)
Facilities	1,386,880	1,386,880	1,028,474	358,406
Support	669,959	669,959	86,945	583,014
Debt service	--	--	112,833	(112,833)
Total expenditures	6,928,332	6,928,332	6,406,389	521,943
Excess of revenues over expenditures	1,583,536	1,583,536	1,871,758	288,222
<b>Other financing uses:</b>				
Transfers out	(682,294)	(682,294)	(312,650)	369,644
Net change in fund balance	901,242	901,242	1,559,108	657,866
Beginning fund balance	(637,122)	(637,122)	(637,122)	--
Ending fund balance	\$ 264,120	\$ 264,120	\$ 921,986	\$ 657,866

# QUEST PREPARATORY ACADEMY

## REQUIRED SUPPLEMENTAL INFORMATION

### BUDGETARY COMPARISON SCHEDULE

#### SPECIAL REVENUE FUND – SPECIAL EDUCATION

FOR THE YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenue:</b>				
State sources	\$ 110,282	\$ 110,282	\$ 359,154	\$ 248,872
Federal sources	116,300	116,300	81,433	(34,867)
Total revenue	226,582	226,582	440,587	214,005
<b>Expenditures:</b>				
Instruction:				
Special instruction	661,537	661,537	346,722	314,815
Support services:				
Facilities			17,950	(17,950)
Support	37,700	37,700	78,130	(40,430)
Total expenditures	699,237	699,237	442,802	256,435
Excess of revenues over expenditures	(472,655)	(472,655)	(2,215)	470,440
<b>Other financing uses:</b>				
Transfers in	472,655	472,655	4,302	(468,353)
Net change in fund balance	--	--	2,087	2,087
Beginning fund balance	--	--	--	--
Ending fund balance	\$ --	\$ --	\$ 2,087	\$ 2,087

**QUEST PREPARATORY ACADEMY**

**REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
SPECIAL REVENUE FUND – FOOD SERVICE**

**FOR THE YEAR ENDED JUNE 30, 2017**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenue:</b>				
Local sources	\$ 245,073	\$ 245,073	\$ 176,109	\$ (68,964)
<b>Expenditures:</b>				
Operation of non-instructional services:				
Food services	460,132	460,132	527,486	(67,354)
Excess of expenditures over revenue	(215,059)	(215,059)	(351,377)	(136,318)
<b>Other financing uses:</b>				
Transfers in	209,639	209,639	346,386	136,747
Net change in fund balance	(5,420)	(5,420)	(4,991)	429
Beginning fund balance	5,420	5,420	5,420	--
Ending fund balance	\$ --	\$ --	\$ 429	\$ 429

## **QUEST PREPARATORY ACADEMY**

### **NOTES TO THE BUDGETARY COMPARISON SCHEDULES**

#### **FOR THE YEAR ENDED JUNE 30, 2017**

##### **Budgetary information:**

The Academy is required by the State of Nevada Department of Education ("Department") to adopt a final budget no later than June 8 of each year under NAC 386.370 but is not required by the Department to augment the budget during the year. The annual budgets for all funds are adopted on a basis consistent with accounting principles generally accepted in the United States.

Additional budgetary information can be found within Note 1 to the Academy's basic financial statements on page 21 of this report.

Any deficiencies of revenues under expenditures in the special education and food service funds are compensated for through a transfer from the general fund. Any deficiencies of revenues under expenditures in the general fund are compensated through a use of the general funds unrestricted cash reserves.

**QUEST PREPARATORY ACADEMY****REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF ACADEMY'S PROPORTIONATE SHARE OF THE NET  
PENSION LIABILITY****JUNE 30, 2017****Public Employees' Retirement System of Nevada**

Last 10 Fiscal Years\*

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Academy's proportion of the net pension liability	0.05279%	0.08156%	0.07818%
Academy's proportion of the net pension liability	5,501,949	9,346,250	10,520,783
Contribution deficiency (excess)			
Academy's covered - employee payroll	4,958,337	4,685,061	3,732,463
Academy's proportion of the net pension liability as a percentage of its covered - employee payroll	111.0%	199.5%	281.9%
Plan's proportion of the net pension liability as a percentage of its plan's total pension liability	76.3%	75.1%	72.2%

\* The amounts presented for each fiscal year were determined as of June 30.

\* Fiscal year 2015 was the first year of implementation, therefore only three years are shown.

**QUEST PREPARATORY ACADEMY**

**REQUIRED SUPPLEMENTAL INFORMATION  
SCHEDULE OF CONTRIBUTIONS TO PUBLIC EMPLOYEES'  
RETIREMENT SYSTEM OF NEVADA**

**JUNE 30, 2017**

**Public Employees' Retirement System of Nevada**

Last 10 Fiscal Years\*

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Contractually required contributions	\$ 534,263	\$ 933,871	\$ 889,861	\$ 988,339
Contributions in relation to the contractually required contribution	<u>(534,263)</u>	<u>(933,871)</u>	<u>(889,861)</u>	<u>(988,339)</u>
Contribution deficiency (excess)	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
Academy's covered - employee payroll	\$ 3,059,762	\$ 4,958,337	\$ 4,685,061	\$ 3,732,463
Contribution as a percentage of covered- employee payroll	17%	19%	19%	26%

\* Schedule is intended to show information for 10 years. Data is not available for fiscal years prior to 2014.

## QUEST PREPARATORY ACADEMY

### NOTES TO THE SCHEDULES OF THE ACADEMY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND PENSION CONTRIBUTIONS

JUNE 30, 2017

#### *Changes of benefit terms:*

Benefit terms for participants in Public Employees' Retirement System of Nevada ("PERS") changed for regular members entering the System on or after July 1, 2015 to have a 2.25% multiplier of the average compensation for each accredited year of services. Other member benefit terms remain unchanged.

#### *Changes of assumptions:*

There have been no changes in actuarial assumptions or methods since the last valuation.

#### *Method and assumptions used in calculations of actuarially determined contributions:*

The actuarially determined contribution rates in the schedule of contributions are determined on an annual basis by PERS. The following actuarial methods and assumptions were used to determine actuarial contribution rates:

Actuarial cost method:	Entry age normal
Amortization method:	Level percentage
Amortization period:	30 years through June 30, 2011 and thereafter a period equal to the truncated average remaining amortization period of all prior UAAL layers until average is less than 20 years, and thereafter a period of 20 years would be used
Asset valuation method:	5 year smoothed market
Inflation rate:	3.50%
Payroll growth:	6.50% per year for regular employees and 7.5% for police/fire
Investment rate of return:	8.00% including 3.50% for inflation

#### *Covered employee payroll:*

Covered employee payroll includes salaries and wages for Academy employees that are provided with a pension through PERS.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Receiver of  
Quest Preparatory Academy

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Quest Preparatory Academy, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Quest Preparatory Academy's basic financial statements and have issued our report thereon dated December 1, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Quest Preparatory Academy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Quest Preparatory Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of Quest Preparatory Academy's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2017-001 and 2017-002 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2017-003 to 2017-004 to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Quest Preparatory Academy's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2017-001 and 2017-003.

### **Quest Preparatory Academy's Response to Findings**

Quest Preparatory Academy's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Quest Preparatory Academy's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Bredshaw, Smith & Co., LLP*

Las Vegas, Nevada  
December 1, 2017

## QUEST PREPARATORY ACADEMY

### SCHEDULE OF FINDINGS AND RESPONSES

#### FOR THE YEAR ENDED JUNE 30, 2017

##### 2017-001      Reconciliations

*Condition:* During the audit process, prepaid expenses and liabilities were adjusted. Although policies and procedures were implemented and significant improvements were made in relation to prior year audit findings there were still a few adjustments required during the audit process.

*Criteria:* The Nevada Revised Statutes ("NRS") and the Charter School Contract ("Charter Contract") with the State Public Charter School Authority ("SPCSA"), require Quest Preparatory Academy ("Quest") to maintain the books and records on the accrual basis of accounting. Per the Charter Contract section 4.1.7, accounts must be reconciled monthly.

*Cause:* Prepaid expenses and accrued liabilities were not reconciled on a monthly basis.

*Effect:* As a result of audit adjustments, prepaid expenses were increased \$97,007 accounts payable and accrued liabilities increased \$93,146 and expenses decreased \$3,861.

*Auditor's Recommendation:* We recommend that policies and procedures be implemented to assure all asset and liability accounts are reviewed and reconciled on a monthly basis to assure proper accruals are made.

*Management's Corrective Action Plan:* Quest Academy is continuing to implement its improved financial policies and procedures. We have created a new Financial Policies and Procedures Manual that requires accurate bookkeeping, including the processes of monthly accruals, timely and comprehensive entries, and internal audit controls to assure processes are being followed and data is correct. We have retained a financial consulting firm to assist with the full and immediate implementation of our financial policies and procedures.

##### 2017-002      Capital assets

*Condition:* Capital asset general ledger accounts were not adjusted to reflect all disposals and additions. Procedures were implemented to update the capital asset schedule but a few additions and disposals were not reflected in the schedule, primarily related to a disposal of assets related to a non-recurring lease negotiation.

*Criteria:* A capital asset schedule should be maintained and reconciled to the general ledger on a monthly basis. Acquisitions should be reviewed for proper capitalization and disposals of assets should be recorded in the general ledger.

*Cause:* The fixed asset schedule was not adjusted to reflect all disposals, and not all purchases meeting the capitalization threshold were recorded as additions.

*Effect:* Audit adjustments were recorded to decrease fixed assets \$338,515, decrease accumulated depreciation \$132,834 and to decrease gain on disposal of assets \$205,681.

*Auditor's Recommendation:* The capital asset schedule should be updated and reconciled to the general ledger monthly. The schedule should be reviewed to verify additions meet the capitalization criteria established by management and, on an annual basis, the schedule should be compared and reconciled to the physical inventory of capital assets.

*Management's Corrective Action Plan:* Quest Academy will fully implement its procedures to properly maintain a capital asset schedule that is reconciled, on a monthly basis, to the general ledger. In addition, purchases will be carefully evaluated to determine whether they meet the Academy's criteria for capitalization.

### **2017-003      Control of signature stamp**

*Condition:* An individual responsible for approving and paying expenditures and maintaining the general ledger has unrestricted access to an authorized check signer's signature stamp. A similar finding was noted in the prior year audit.

*Criteria:* Assets should be safe guarded against theft and unauthorized use.

*Cause:* The Academy has two check signers and one of the check signers is not in the office on a regular basis. The primary check signer is in the office on a regular basis and manually signs checks. The primary purpose of the signature stamp is to allow, upon approval of the Receiver, for the Controller to stamp his signature on documents and, if the primary check signer is not available, to have the ability to pay expenses.

*Effect:* Allowing the individual responsible for approving and paying expenditures and maintaining the general ledger to have unrestricted access to an authorized check signer's signature stamp leaves the Academy susceptible to unauthorized cash disbursements.

*Auditor's Recommendation:* We recommend that the signature stamp is removed from the Controller's possession and maintained under lock and key with a trusted individual who does not have access to the check writing program, bank accounts and the general ledger.

*Management's Corrective Action Plan:* The signature stamp has been removed from the Controller's possession and is being maintained by a trusted individual who does not have access to the check writing program, bank accounts and the general ledger.

**2017-004      Payroll**

*Condition:* During the audit, errors were noted in payroll including paid time off paid at a rate in excess of the contracted hourly rate, exclusion of longevity pay in the PERS calculation and one employee paid an extra 86.67 hours on a paycheck.

*Criteria:* Procedures should be in place to timely detect errors in payroll prior to submission to and payment by the payroll company.

*Cause:* Rates used to pay paid time off were not compared to contract rates, the Payroll Employee misunderstood PERS inclusion of longevity pay and hours were entered for a salaried employee whose payroll is calculated under the manual option in the payroll system and the double payment was not detected through the pre-processing payroll review.

*Effect:* Based on the incidences noted during testing of payroll, employees were overpaid \$1,463 as a result of the hourly rate for paid time off exceeding the contract rate and for the excess hours paid to an employee. The PERS omission of longevity pay occurred in July 2016 and August 2016 payroll submissions and was noted during a PERS audit. As a result of the audit, PERS retroactively corrected the underpayments and the Academy properly adjusted future PERS calculations to include longevity pay.

*Auditor's Recommendation:* The payroll procedures should be enhanced to include verification of the rates utilized to calculate paid time off agree to contract rates and to insure employees payroll calculations under the manual option do not also include hours entered resulting in duplicate payment. These procedures should be performed prior to finalizing payroll for processing. Additionally, individuals responsible for preparing and reviewing payroll should be familiar with the policies of PERS and understand what items of pay are eligible for PERS.

*Management's Corrective Action Plan:* Quest Academy has retained a financial consulting firm to provide another layer of oversight in the processing of payroll and reviewing the PERS calculations. The Academy will enhance pre-submission payroll review procedures to include verifying all pay rates to contract rates and double checking that the manual payroll option does not also include hours which leads to double payment. The Academy will also make sure the financial consulting firm and other individuals with responsibility to review PERS calculations has a current copy of the PERS Plan document and understands the items that are included in covered payroll.

## **QUEST PREPARATORY ACADEMY**

### **SCHEDULE OF PRIOR FINDINGS**

#### **FOR THE YEAR ENDED JUNE 30, 2017**

##### **2016-001 Timely reconciliations and accrual basis of accounting**

*Condition:* The Nevada Revised Statutes (“NRS”) and the Charter School Contract (“Charter Contract”) with the State Public Charter School Authority (“SPCSA”), require Quest Preparatory Academy (“Quest”) to maintain the books and records on the accrual basis of accounting. Per the Charter Contract section 4.1.7, accounts must be reconciled monthly. Journal entries were required during the audit process to adjust the books to the accrual basis of accounting. Many of the accounts were not reconciled timely. Some of the items that were not properly recorded include prepaid expenses, loan payments, accounts receivable, and liabilities not reflecting all commitments. As a result, financial information relied on by management and the governing board is inaccurate which can lead to inappropriate managerial decisions. In addition, the quarterly financial reports submitted to the SPCSA were inaccurate.

*Status:* Quest Academy developed a Financial Policies and Procedures Manual that reflects Nevada Revised Statutes through the use of the Nevada Department of Education Suggested Model Financial Policies for Nevada Charter Schools, and the SPCSA policies that govern the charter. New policies and procedures include reconciliations of balance sheet accounts. As noted in finding 2017-001 there were still a few adjustments required during the audit process.

##### **2016-002 Policies and procedures including segregation of duties**

*Condition:* Due to the limited number of personnel in the accounting function, individuals are responsible for overlapping financial responsibilities without proper oversight. Additionally, a supervision and review process has not been established to allow for proper review procedures to be performed, including review and approval of bank reconciliations, journal entries, and monthly financial statements. The same individual that is responsible for the general ledger, including posting journal entries, is responsible for paying bills and reconciling the bank statements. The same individual has access to the check signor’s signature stamp. Lack of segregation of duties and proper review and supervision limits Quest’s ability to properly safeguard assets and increases the risk that errors or misappropriations occur that are not detected and corrected on a timely basis.

*Status:* Quest Academy developed a Financial Policies and Procedures Manual that reflects Nevada Revised Statutes through the use of the Nevada Department of Education Suggested Model Financial Policies for Nevada Charter Schools, and the SPCSA policies that govern the charter. New policies and procedures include having bank reconciliations completed, on a timely basis, by an individual who is not responsible for the general ledger and adding a review process of the monthly financial statements. As noted in item 2017-003, the Controller still has unrestricted access to the signature stamp of an authorized signer.

#### **2016-003      Capital assets**

*Condition:* A detailed capital asset schedule is not being properly maintained. The asset schedule should include a detail listing of all capital assets, including the tag number, location of the property, and whether the property was purchased with public funds. The asset schedule was not updated from the prior year, does not include the tag number, location of the property, or source of funds used, and depreciation was not recorded prior to the commencement of the audit. Additionally, accumulated depreciation for some of the disposed items was not appropriately reflected in the loss on disposal of assets.

*Status:* The Academy took a physical inventory of capital assets and created a comprehensive detailed capital asset schedule including a description of the asset, location, and identify if the asset was purchased with public funds. However, as noted in finding 2017-002 a similar schedule with assets meeting the Academy's capitalization criteria was not updated, maintained and reconciled to the general ledger.

#### **2016-004      Deferred rent**

*Condition:* In accordance with the accrual basis of accounting, leases are reported on a straight-line basis. Leases with rental escalations throughout the lease or that offer concessions during the lease term, require calculations of deferred rent reflecting the difference between rent expense on a straight-line basis in comparison to the required monthly payments made under the lease term, with the difference reported in deferred rent. Quest entered into a new lease during the year for which a deferred rent calculation was not made or recorded.

*Status:* Quest Academy did not have any qualifying leases as of June 30, 2017.

#### **2016-005      Public Employee's Retirement System**

*Condition:* The amounts owed to the Public Employee's Retirement System ("PERS") were not properly tracked or recorded in the general ledger. The liability was significantly understated. Currently only the liability is recorded for the amount withheld from employee paychecks and the employer's portion of participants electing employer only deferrals. The employer's contribution for the 50/50 option is significant and should be calculated and reported each pay period. Payments to PERS were not timely submitted and the submission documentation contained errors.

*Status:* There were no similar findings in the current year. Quest Academy corrected the procedures for reporting PERS in the general ledger and the past due payments to PERS were paid and as of June 30, 2017 payments are current.

#### **2016-006      Payroll**

*Condition:* The pay rate schedule approved by the previous Board was not always adhered to and proper documentation was lacking in some instances.

*Status:* For the employees selected for payroll testing, it was noted that the pay rate schedule was adhered to for employment contracts covering the year ended June 30, 2017 and documentation was available for all payroll transactions tested.

**2016-007      Year End Closing of Accounting System**

*Condition:* The accounting system was not properly reconciled to the audited financial statements and closed after the completion of the audit for the year ended June 30, 2015. Some of the audit entries were not properly posted to the accounts and a few dates were inadvertently changed from July 1 to June 30 which resulted in inaccurate fund balances carried forward to fiscal year 2016 and affected changes to the fund balance.

*Status:* There were no similar findings in the current year. After reconciling QuickBooks for fiscal year 2016 to the audited financial statements, QuickBooks was locked to changes for fiscal years 2016 and prior.

**2016-008      Check signing**

*Condition:* The By-laws require two signatures on checks in excess of \$2,500 and lists board members and officers, which the Academy currently does not have, as authorized check signers. During the year ended June 30, 2016, we noted several checks processed by the bank that were in excess of \$2,500 and did not contain two signatures.

*Status:* With the appointment of a Receiver, Quest Academy does not have an active board of directors. The policy requiring two signatures was alleviated by the Receiver and authorized check signers were reduced to two. The By-laws have not been updated to reflect the current organizational structure of the charter and due to the Academy being under receivership, the By-laws are not scheduled to be amended until a governing board is reinstated.

**2016-009      Credit card reconciliations**

*Condition:* Established policies require credit card statements to be reconciled monthly by a designated employee and support for each transaction should be attached to the reconciliation. During the audit we noted the reconciliation for the month we selected to test was re-reconciled eight months after the statement closing date and there was no documentation noting when the original reconciliation was performed or the changes made to the reconciliation. Additionally, there was no support or approval for three of the transactions.

*Status:* No similar findings were noted in the current year.

**2016-010      Contract rates**

*Condition:* The amount charged by the food vendor for breakfast was in excess of the amount per the signed and approved contract in the vendor file. There was no documentation as to why a higher amount was charged and paid.

*Status:* No similar findings were noted in the current year.

**2016-011      Chart of accounts**

*Condition:* Per Nevada Administrative Code (“NAC”) 387-765 and the Charter Contract section 4.1.6, the organization must use a prescribed chart of accounts. The general ledger account numbers being utilized in the QuickBooks accounting software do not adhere to the prescribed format and the current chart of accounts does not follow a logical pattern, e.g. asset numbers, liabilities, equity, revenue and expense accounts are not within a specified range. Additionally, identifying numbers for departments, activities and funds are not established which makes tracking and categorizing activity in the proper fund more difficult.

*Status:* Additional codes and subcategories were added in QuickBooks to identify department activities and funds.

**2016-012      Budgeting**

*Condition:* Per NAC 387.710 and the Charter Contract, policies must be established to ensure expenditures are consistent with the budget. Budget to actual comparisons were not performed monthly and the board approved budget submitted through Epicenter was in summary and not detailed and did not budget for all significant categories.

*Status:* The 2016/2017 fiscal year budget was developed in a more detailed manner to provide budgetary guidance on expenditures and anticipated costs and periodic comparisons of budget to actual results are provided to the Receiver.

**2016-013      Verification of vendors**

*Condition:* Regulations require vendors paid from federal funds are not suspended or disbarred and documentation of such verification must be maintained. Quest did not verify if vendors were suspended or disbarred and does not have a procedure in place to perform such verification prior to expending federal funds.

*Status:* No similar findings were noted in the current year.

# Bradshaw, Smith & Co., LLP

CPAs, Business Advisors & Consultants

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Las Vegas, Nevada 89146  
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December 1, 2017

To the Receiver  
Quest Preparatory Academy

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Quest Preparatory Academy for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 24, 2017. Professional standards also require that we communicate to you the following information related to our audit.

## Significant Audit Findings

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Quest Preparatory Academy are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Quest Preparatory Academy during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate) affecting Quest Preparatory Academy's financial statements were:

Management's estimate of other current liabilities is based on current negotiations. We evaluated the key factors and assumptions used to develop the accrual of other liabilities in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimates regarding net pension liability. The estimates are based on a schedule of employer allocations of the Employees' Retirement System of Nevada (PERS) which was audited by CliftonLarsonAllen LLP. The significant assumptions used in the estimates are disclosed in Note 11 to the financial statements.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- The disclosure of going concern in Note 2 to the financial statements
- The disclosure of the prior period adjustment in Note 3 to the financial statements
- The disclosure of the pension plan in Note 11 to the financial statements
- The disclosures of commitments and contingencies in Note 15 to the financial statements

The financial statement disclosures are neutral, consistent, and clear.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatements detected as a result of audit procedures were corrected by management:

- Prior period adjustment to correct deferred outflows of resources related to PERS
- Prior period adjustment to correct the overstatement of payroll accruals
- Adjustments to prepaid expenses
- Adjustments to accounts payable and accrued liabilities for unrecorded payables
- To adjust capital assets for assets, disposals and depreciation expense
- To adjust for the effect of the settlement agreement with Hertz regarding TEQ lease and equipment returned
- Adjustment of deferred inflows, deferred outflows and net pension liability related to PERS and GASB 68 reporting requirements

### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated December 1, 2017.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Quest Preparatory Academy's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as [Name of Governmental Unit]'s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Our Independent Auditor's Report includes an emphasis of matter paragraph regarding going concern due to the concerns the State Public Charter School Authority has raised regarding financial stability and academic performance. The financial statements do not include any adjustments that might result from the outcome of the uncertainty and our opinions were not modified with respect to the matter.

#### Other Matters

We applied certain limited procedures to management's discussion and analysis, the budgetary comparison information and the Public Employee's Retirement System of Nevada, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

#### Restriction on Use

This information is intended solely for the information and use of the Receiver of Quest Preparatory Academy, the State Public Charter School Authority and management of Quest Preparatory Academy and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

*Bradshaw Smith & Co, LLP*