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PRELIMINARY REPORT FOR QUEST PREPARATORY ACADEMY

February 22, 2016

Prepared by Joshua Kern, Receiver

I. EXECUTIVE SUMMARY

After an audit revealed significant operational issues at Quest Preparatory Academy, the Nevada State Public Charter School Authority ("SPCSA") placed the charter school into receivership on October 26, 2015. The SPCSA appointed Joshua Kern—the head of a national firm specializing in charter school management—as Receiver for the school, which serves nearly 1,300 students across four campuses in Las Vegas.

The Receiver took swift action after his appointment: he assumed control of all financial accounts and stopped payment on all outstanding debts, pending a complete evaluation of the school's viability. The Receiver responded to several outstanding legal claims and sought coverage from Quest's insurance provider where appropriate. He made initial staffing cuts and reviewed accounting policies and procedures to develop a new financial management plan for the school. He also reviewed the forensic audit of Quest's operations for the 2013-2014 and 2014-2015 school years and utilized its findings in addressing the outstanding issues.

The Receiver's objective is to preserve Quest's ability to educate its students while addressing the significant, outstanding financial issues as quickly as possible. As the Report illustrates, however, mismanagement at the school spanned several years; it may take a significant period of time to unravel and remedy these problems. This Preliminary Report describes the events that led to Quest's receivership, identifies the individuals the Receiver has retained to assist his efforts, identifies the immediate issues facing Quest, describes the Receiver's current actions and describes a plan for Quest's future operations.

A. SUMMARY OF EVENTS LEADING TO RECEIVERSHIP

At the close of the 2012-2013 fiscal year, Quest maintained a cash balance exceeding $1,000,000. By the end of 2015-2016, Quest's expended, unpaid obligations will exceed

$2,400,000. Quest experienced this dramatic reversal after entering into contracts for equipment, curriculum and facilities that exceeded its budget and cost more than the going rate.

Key members of Quest's Governing Board appear to be responsible for this budget shortfall. Specifically, Quest entered into a costly agreement with the Chartered for Excellence Foundation ("CFEF"), a purportedly independent foundation created by a Board member with the other Board members' support. The agreement tasked CFEF with providing services to Quest at financial terms highly favorable to the Foundation, not the school. Most costly was a campus sublease which obligated Quest to pay $14,771 more per month than CFEF's actual cost. Quest also hired relatives of its Board President to positions for which they were not qualified and at salaries exceeding the going rate.

Beyond this self-dealing, Quest's managers irresponsibly entered into contracts and failed to oversee its financial systems. Without Board approval, the Board President entered into several contracts that operated to the detriment of the school. These included expensive and inappropriate loan agreements, technology contracts, and salary increases for employees. Quest hired a former board member and her husband for full-time positions and overpaid both individuals by more than $70,000 during a seven-month period. Quest failed to pay the appropriate amount to the Public Employee Retirement System ("PERS") and currently owes over $360,000.

B. ACTIONS TAKEN BY THE RECEIVER

In response to the substantial mismanagement detailed in the Report, the Receiver has taken the following steps:

1. <u>Evaluate Outstanding Financial Liabilities</u>: The Receiver has stopped payment on all financial liabilities—currently totaling more than $2 million—while investigating the validity

of each. No outstanding debt will be paid until the Receiver determines it is valid. He will also seek reimbursement from Quest's insurance company where available.

2. Pursue Claims Concerning Former Board Members and Employees. The Receiver has filed two insurance claims to recover funds wrongfully received by Quest's employees. He has dismissed employees who received excess funds and is investigating claims for damage or indemnity from responsible Board members.
3. Evaluate Campuses. The Receiver is assessing whether each of Quest's campuses is viable. Depending on his ability to recoup overpayments and renegotiate future payments, the Receiver may elect to close one or more campuses.
4. Rightsize Staff. The Receiver has reduced staff salaries across the board and eliminated or combined positions where appropriate.
5. Implement Financial Management and Capacity Plan. The Receiver has addressed shortcomings in the accounting and financial systems at Quest. He has also established a financial management plan to ensure that appropriate technology and employee oversight occurs.
6. Conduct Performance Audit. Finally, the Receiver will conduct a performance audit for each campus in preparation for the 2016-2017 school year.

II. QUEST PROFILE

Quest Preparatory Academy ("Quest") is a Las Vegas charter school serving students in kindergarten through twelfth grade. Since its founding in 2008, Quest has expanded from a single school to four campuses around the city. Quest initially served kindergarten through fifth grade, and annually expanded the grade levels it served. Quest grew in 2012, opening high school and kindergarten campuses; it grew again in 2014, opening a third elementary school. Today, Quest operates four separate campuses: Torrey Pines (K-7), Alexander (K), Roberson (7-12), and Bridger (K-5). When the receivership began, Quest served 1,288 students and employed 120 people.[1]

Quest received a four-star ranking (out of five stars) on the Nevada School Performance Framework for its elementary-level education during the 2013-14 school year. For its middle and high school-level education that year, Quest received a three-star ranking.[2] The Nevada State Public Charter School Authority ("SPCSA") approved Quest's request for a six-year renewal of its charter in 2014.

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[1] Appendix A to this Report provides detailed information on Quest's four campuses.

[2] The Nevada Department of Education is altering the assessment mechanism for schools and has not published data for the 2014-2015 school year.

III. SUMMARY OF EVENTS LEADING TO RECEIVERSHIP

Quest maintained a cash balance of over $1,000,000 at the close of the 2012-2013 fiscal year. Over the next two years, due to the questionable management decisions and financial misconduct detailed below, Quest became financially insolvent.

A. Budget Shortfall

As Quest's Governing Board (the "Board") changed its composition, the school began to enter into contracts for equipment, curriculum and facilities that were far outside its budget and above the going rate for such items. When Quest opened Roberson and Alexander in 2012, the school entered into highly unusual contracts for furnishings, equipment and technology. Quest was also paying several brokers and developers to create new campuses. When these deals fell through, Quest began leasing business parks—with plans to renovate them—for their new campuses. Quest moved its Roberson campus to an expensive business park in 2014. And, in 2015, the Torrey Pines campus moved from a reasonable—and possibly renewable—lease to another expensive business park. The two business park campuses require significant improvements. Quest failed to obtain prior approval from the SPCSA before moving to Torrey Pines and the move was only approved the day before the campus opened its doors to students. Bridger, Quest's newest campus, opened in 2015 at an exorbitant lease rate. Quest also incurred costs for shipping, storage and other logistics when moving the three campuses.

As a result of these business decisions, Quest's operating costs began to exceed its Distributive School Account funding. In the 2014-2015 school year, Quest's monthly operating costs exceeded income by a monthly average of $63,000. The Receiver estimates that, before any renegotiation occurs, Quest's total expended, unpaid obligations will exceed $2,400,000 at the end of 2015-2016.

B. Conflicts of Interest

As Quest grew, financial mismanagement by the individuals responsible for the school inflicted significant harm. Based on the Receiver's investigation and the audit prepared by Deloitte Touche Tohmatsu, LLC ("Deloitte"),[3] the two key members of the Board who appear to be most responsible for this misconduct were Board President David Olive and Board Member Anthony Barney. Other Quest employees actively involved in the mismanagement included Superintendent Debra Roberson; Director of Innovation and Grants Kelli Miller; and Human Resources Director Lee Miller, Kelli Miller's spouse. Attorney Tracy Truman served as Quest's legal counsel, his tenure spanned from November 2013 until the Receiver's appointment.

1. Relationship with Chartered for Excellence Foundation

Quest entered into a costly sublease for its Bridger campus with the Chartered for Excellence Foundation ("CFEF"), a purportedly independent entity incorporated by Barney on January 31, 2014. CFEF's original officers were: Olive, President and Director; Barney, Director; Kelli Miller, Secretary; and Debra Roberson, Treasurer. All four officers were simultaneously affiliated with Quest. In a May 17, 2014, agreement executed by Olive in his role as Quest's Board President, CFEF became an independent contractor for Quest.[4] Kelli Miller executed the agreement for CFEF ("CFEF Agreement"). At the time, both Kelli Miller and Olive held positions at both CFEF and Quest.

Under the CFEF Agreement, Quest authorized CFEF to provide a variety of services to the school, including leasing vehicles, developing curriculum, providing facilities management, performing forensic accounting services, preparing grants, fundraising and collecting computer

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[3] See Appendix B: Forensic Audit Materials.
[4] See Appendix C: CFEF Agreement.

and internet fees from students.[5] CFEF's compensation equaled 20% of the gross amount of any services or goods that it obtained for Quest.[6] For lease agreements, CFEF's compensation would be determined on a case-by-case basis, but could total no less than 20% of the lease.[7] The CFEF Agreement does not indicate who determines exact amount of compensation.

Pursuant to the CFEF Agreement, CFEF secured a 25-year lease agreement for 1300 East Bridger Avenue—now the Bridger campus—and subleased it to Quest during the summer of 2014. CFEF pays $324,800 annually, or approximately $27,066.00 per month, to the landlord, CSP-Bridger Ave., LLC. Under the first sublease, dated July 9, 2014, Quest agreed to pay the same amount of rent to CFEF.[8] Kelli Miller and Olive executed the agreement for CFEF and Quest, respectively. In a second sublease agreement, executed on August 6, 2014, Quest's annual payment increased to $501,337, or approximately $41,778 per month—a $14,771 monthly increase from the first sublease. This sublease remains in effect today.[9] Again, when the lease was executed both Kelli Miller and Olive held positions simultaneously at Quest and CFEF.

The overlapping membership in the two entities changed over the next year. In February 2015, Barney resigned from Quest's Governing Board; and, in June 2015, CFEF hired Barney as its attorney. Debra Roberson resigned from CFEF's Board of Directors in June 2015, but maintained her position at Quest. Stephanie Gabany also served on CFEF's Board while working as an Executive Administrative Assistant at Quest. Gabany resigned from CFEF's Board in July 2015. On August 20, 2015, CFEF's website still named Olive, Gabany and Debra Roberson as its Board of Directors; today, the website says it is "under construction."

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[5] See Appendix C: CFEF Agreement, Article 3.2(b)-(l).
[6] See Appendix C: CFEF Agreement, Article 5.1.
[7] See Appendix C: CFEF Agreement, Article 5.1.
[8] See Appendix D: Bridger Sublease July 2014.
[9] See Appendix E: Bridger Sublease August 2014.

It appears that David Olive attempted to conceal the interrelationship between Quest and CFEF from the auditors. In July 2015, Olive e-mailed the auditor, stating "no employees of Quest Preparatory Academy work for Chartered for Excellence, sit as a serving member of the governance board of Chartered for Excellence or have affiliation with Chartered for Excellence outside a landlord/tenant relationship."[10]

2. Olive Family Nepotism

During Olive's tenure, Quest hired three of his relatives, despite their limited experience. Quest hired Olive's mother, Kaye Lynn Olive, on February 24, 2014, as a Business Office Specialist; her annual salary was $35,000. Teresa Barber, Quest's Human Resources Manager, later reported to the auditor that she wanted to fire Kaye Lynn Olive for her mistakes in payroll, but could not because Kaye Lynn Olive was David Olive's mother. Quest also hired Olive's uncle, John Thomas Olive, on May 16, 2014, as the Properties and Maintenance Manager; his annual salary was $45,000. Barber reported to the auditor that the salary for this position would be $35,000 today. And Quest hired Olive's father, James Olive, on July 7, 2014, as the Facilities Project Manager; his annual salary was $60,000. Barber reported to the auditor that she would not have hired James Olive because he had no project management experience and that the salary for this position would be $45,000 today. What's more, no drug tests are on file for Olive's relatives even though Quest imposes mandatory drug tests before hiring new employees.

Hiring these three individuals appears to have violated the Nevada Administrative Code, according to Deloitte's Forensic Audit.[11] The SPCSA did not approve any of Olive's relatives' employment before it began. But under NAC 386.345, the SPCSA must approve hiring anyone related by blood or marriage to an employee of the governing body or charter school. Quest hired

[10] See Appendix B: Forensic Audit Materials.
[11] See Appendix B: Forensic Audit Materials.

Olive's family members in 2014, but did not receive permission from the SPCSAt until February 20, 2015.

C. Mismanagement of Funds

1. Improper Contracts

Olive entered into several contracts on behalf of Quest without first obtaining Board approval, including two factoring loan agreements with Charter Asset Management Fund, LP ("CAMF").[12] On September 24, 2014, before an agreement was signed, CAMF wired $200,000 to Quest. The next day, Olive and Kelli Miller entered into a factoring agreement with CAMF for $200,000, at a cost to Quest of $10,705.[13] Six days later, Olive presented the Board with an unsecured promissory note for $200,000 and it approved the loan. On October 7, 2014, Olive and Kelli Miller signed another factoring agreement with CAMF for $400,000, at a cost to Quest of $28,435.[14] The funds were deposited in Quest's account that day. Over a month later, on November 14, 2014, the Board voted to ratify this loan. These expensive loans are extremely unusual for schools because they provide no long-term financial benefit. Quest used the loans for payroll because it had insufficient funds to meet its obligations.

Olive also failed to seek approval from the Board for a $4.3 million agreement executed on July 7, 2014, with Sprint Solutions, Inc.[15] The 36-month agreement committed Quest to purchase 2,000 devices—nearly twice the amount needed to serve Quest's student population, which peaked at 1,282—each carrying an additional $59.99 monthly service charge. The Board's meeting minutes neither reference nor approve this contract. The Board first mentions the

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[12] A factoring loan agreement is similar to a payday loan; it permits an institution to sell its accounts receivable to receive a smaller amount of money at an earlier date.
[13] See Appendix F: CAMF Agreement September 2014.
[14] See Appendix G: CAMF Agreement October 2014.
[15] See Appendix B: Forensic Audit. The Receiver has not been able to locate a copy of Quest's original agreement with Sprint in Quest's files.

agreement with Sprint on December 29, 2014, when members discussed service issues and weighed terminating the contract.

Olive and Lee Miller also failed to seek board approval for Debra Roberson's salary increases. Her salary fluctuated between $108,000 and $175,000 in 2013 and 2014. On May 6, 2013, Debra Roberson transitioned from interim to permanent Principal for all of Quest's campuses. On June 18, 2013, the Board approved her annual salary of $108,000. A year later, on May 5, 2014, Olive and Lee Miller promoted Roberson to Superintendent and increased her salary to $175,000, without Board approval. But, on October 27, 2014, Roberson requested that her salary be decreased to $108,000 until the Board approved the increase. The Board later approved the contract, which Olive and Miller had signed in June, for one year.

2. Overpayment

On March 10, 2014, Quest hired Kelli Miller as its Director of Innovations and Grants at an annual salary of $104,000. Kelli Miller resigned from Quest's Board on or about March 19, 2014. Kelli Miller's spouse, Lee Miller, began volunteering for Quest in January. Five months later, on May 14, Quest hired Lee Miller as Director of Human Resources at an annual salary of $78,000. On October 23, 2014, Kelli Miller resigned; the next day, Debra Roberson terminated Lee Miller. During a payroll audit, the new Human Resources Manager, Barber, discovered that Kelli Miller had been overpaid by $40,652 and Lee Miller by $30,136 over a seven-month period.

3. Failure to Pay into Public Employee Retirement System

Quest made monthly payments, as required, into the Public Employee Retirement System ("PERS") through October 2014. But Quest then voided the next payment and made no further payments until March 2015. Barber, the new Human Resources Manager, began working with PERS to resolve the issue in December 2014. But Olive told Barber to stop payments to PERS until the proper amount could be calculated. In March 2015, Quest resumed payments to PERS to reduce future fines and fees associated with non-payment. According to PERS records, Quest's stop-payment resulted in a $538,989 under-payment. Quest made regular payments to PERS through September 2015. According to the forensic audit, on September 1, 2015, Quest and PERS reached an agreement to pay the past due amount of $320,192 in biweekly payments from September 2015 through December 2015. It is unclear how Quest could have made these additional payments given its financial condition at the time. As of October 2015, Quest was still three months behind in its payments to PERS. Today, Quest owes PERS $362,191.

D. Forensic Audit

Because of numerous irregularities in operations, including late financial submissions and requests for employees' relatives to serve on the Board, in September 2015, the SPSCA commissioned a forensic audit of Quest for the 2013-2014 and 2014-2015 school years. The audit revealed the extensive mismanagement detailed above.[16] On October 26, 2015, to prevent further harm and to promote the best interests of Quest's students and families, the SPSCA placed Quest in receivership.

[16] See Appendix B: Forensic Audit Materials.

IV. RECEIVER OVERVIEW

The receivership team consists of Joshua Kern and his attorneys in Las Vegas, Nevada and Washington, D.C. The team members' relevant experience is described below.

A. Joshua Kern

Joshua Kern serves as the Receiver for Quest Preparatory Academy. Mr. Kern has been the Managing Member of TenSquare, LLC since its inception. Based in Washington, D.C., with an office in New Orleans, LA, TenSquare is a national firm specializing in helping charter schools improve performance, acquire and finance sites and facilities, and achieve overall educational and growth objectives. TenSquare works with more than fifty charter schools in nine states, plus the District of Columbia. Before founding TenSquare, Mr. Kern cofounded Thurgood Marshall Academy Public Charter High School in the Anacostia neighborhood of Washington, D.C. Under Mr. Kern's leadership as President and Chief Executive Officer, Thurgood Marshall Academy garnered national recognition for the excellence and sustainability of its programs. Mr. Kern is a founding member of the DC Public Charter School Association, Vice Chair of the Board of Friends of Choice in Urban Schools (FOCUS), and an Advisory Board member of the National Public Charter School Resource Center. He is also a frequent speaker at national conferences and has appeared before Congress to discuss charter schools and related educational matters.

B. Holley, Driggs, Walch, Fine, Wray, Puzey & Thompson

Richard F. Holley is local counsel for the Receiver, located in Las Vegas. Mr. Holley is a partner with the law firm of Holley Driggs Walch Fine Wray Puzey & Thompson and a member of the firm's executive management committee. Mr. Holley has practiced law for nearly twenty-nine years in the areas of bankruptcy and commercial litigation. Mr. Holley has received an AV

Preeminent Rating by Martindale-Hubble, which is given to fewer than five percent of attorneys. Mr. Holley was inducted as a Fellow in the American College of Bankruptcy in March 2011 and is one of only three practicing attorneys in Nevada to have received this honor. Mr. Holley has also been listed in the Best Lawyers in America for bankruptcy and creditor/debtor rights since 1996 and has been named as one of the top lawyers in the Mountain States by Super Lawyers in the categories of bankruptcy and debtor/creditor rights since 2007.

Ogonna Brown is local counsel for the Receiver, located in Las Vegas. Ogonna Brown is a shareholder with Holley Driggs Walch Fine Wray Puzey & Thompson, focusing her practice on bankruptcy reorganization, creditor/debtor litigation, secured party representation, and commercial litigation.

C. Miller & Chevalier Chartered

Andrew D. Herman is the Receiver's counsel in Washington, D.C. Mr. Herman is counsel at Miller & Chevalier Chartered. He practices in the areas of civil and criminal federal litigation with a focus on ethics and investigations. Mr. Herman has prevailed in the United States Supreme Court and represented clients before the United States Congress and federal juries. He recently represented a Washington, D.C., charter school in civil litigation.

Sarah Dowd is an associate at Miller & Chevalier Chartered. Ms. Dowd practices in the areas of civil and criminal federal litigation. Before her legal career, Ms. Dowd spent several years working in education outreach for the University of Wisconsin.

V. ACTIONS TAKEN BY RECEIVER

After his appointment on October 26, 2015, the Receiver evaluated Quest's overall current liabilities and the viability of each campus. The Receiver has assumed control of all financial accounts and has stopped payment on all outstanding debts until each obligation can be evaluated for validity and necessity. The Receiver also began responding to several legal claims, seeking insurance payments from Philadelphia Insurance, Co., making initial staffing cuts, and reviewing accounting policies and procedures to develop a new financial management plan. The Receiver's initial goal, consistent with the SPCSA's purpose for appointing a receiver, is to address and resolve the immediate operational concerns without disrupting the current students' education.

A. Evaluate Outstanding Financial Liabilities

The Receiver stopped payment on all outstanding financial liabilities until he could evaluate the validity of each obligation. Quest's total outstanding debt exceeds $2 million. For unsecured contract creditors, the Receiver will assess whether each contract was properly executed, whether Quest received the benefit of the agreement, and whether the contract was fraudulent in any way. If the Receiver determines that a contract was improperly executed, was entered into fraudulently or remains unfulfilled, Quest will not pay the outstanding debt. Where appropriate, the Receiver will also seek reimbursement through Quest's insurance policy with Philadelphia Insurance. If the contract was properly executed, fulfilled and not fraudulent, the Receiver will determine the amount that Quest can pay on the contract and seek a negotiated agreement from all parties for that payment.

The posture of Philadelphia Insurance, Quest's insurance provider, will be a significant factor in determining the school's financial viability. The Receiver is currently working with

Philadelphia Insurance to establish the amount of insurance coverage available to Quest. Then, the Receiver will be able to calculate the remaining debt and renegotiate with creditors and landlords. This process could be concluded in a few months or take a few years, depending on Philadelphia Insurance's response and the subsequent negotiations with individual creditors and landlords. Once the Receiver brings finality to Quest's outstanding financial obligations, Quest can return to independent governance.[17]

Quest's Outstanding Debts, excluding leases for real property, are as follows:

Sprint Solutions, Inc.	$364,000.00
TEQLease Capital	$356,755.78
PERS	$362,191.00
Tele-Data Communications, LLC	$429.92
Univest Capital	$35,656.40
Tracy J. Truman	$35,000.00
Amplify Education Inc.	$50,000.00
Discovery Education	$5,832.00
Houghton Mifflin	$2,429.35
McGraw-Hill Education	$2,307.74
Pearson Education Inc.	$3,983.24
CCSD Food Services	$11,142.44
Total	**$1,229,727.87**

[17] While returning to independent governance is one option, others include takeover by another charter school and closure.

1. Sprint Solutions, Inc.

As described in Section III.C.1, Olive entered into a three-year, $4.3 million contract with Sprint. The Board stopped payments on December 29, 2014, in response to ongoing problems with service and hardware. Tracy Truman, Quest's former counsel, negotiated a $390,000 settlement with Sprint, obligating Quest to pay $338,000 for services and $52,000 for equipment that Sprint had already provided.[18] The settlement released Quest from both the remaining 24 months of the contract and its obligation to purchase 2,000 devices. The Board approved the settlement agreement on July 11, 2015, and the new Board President, Timothy Zeidler, signed the agreement on July 13, 2015. Quest resumed payments to Sprint on March 16, 2015, and, as of the audit report date, had paid $137,059 to Sprint under the settlement. The Receiver has now halted payment until he can determine the validity of the initial contract. The Receiver will assess whether to cancel the contract or renegotiate terms to an amount that is reasonable for Quest's size. The Receiver may also pursue an errors and omissions claim for the outstanding liabilities through its policy with Philadelphia Insurance.

2. TEQLease Capital

David Olive and Kelli Miller authorized TEQLease Capital ("TEQLease") to supply furniture for Roberson, Torrey Pines, and another campus that never opened. Hertz Furniture Systems, LLC ("Hertz") supposedly was to supply the furniture to TEQLease and TEQLease, in turn, was to lease the furniture to Quest. The proposed lease would cost Quest $629,023 total, payable in four annual payments of $178,378.[19] Quest paid TEQLease $178,378 in May 2014 and again in $178,378 in May 2015 to TEQLease for a total of $356,676. TEQLease failed to remit the May 2015 payment to Hertz, but continues to hold the payment.

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[18] See Appendix H: Sprint Settlement

[19] See Appendix I: Unexecuted Agreement with TEQLease.

Hertz initiated litigation against TEQLease and Quest in the Superior Court of the State of California for the County of Los Angeles. [20] Hertz contends that it provided the furniture and equipment to TEQLease and is entitled to payment of the unpaid purchase price. TEQLease denies that it entered into a purchase agreement with Hertz and thus denies any liability for payment for the furniture and equipment. TEQLease has also filed a cross-complaint against Quest for declaratory relief and indemnification.[21] To date, Quest has yet to answer either the complaint filed by Hertz or the cross claim filed by TEQLease. Quest has retained California counsel, Daniel J. Kessler, of the law firm Burkhalter, Kessler, Clement & George, LLP to represent Quest in matter. Quest's answers to Hertz's Second Amended Complaint and TEQLease's Cross-Complaint are due February 29, 2016.

The Receiver plans to pursue an errors and omissions claim for the outstanding liability through its insurance coverage with Philadelphia Insurance.

3. PERS

Quest has three outstanding invoices from PERS totaling $362,191. Pursuant to its legal obligations, Quest plans to pay PERS. The Receiver has been in regular communication with representatives from PERS and will negotiate a repayment schedule once the school's overall financial situation is clearer.

4. Tele-Data Communications, LLC

The total outstanding debt under the Tele-Data contract is $429. The Receiver plans to pay that amount because this contract appears valid and the amount owed is de minimis.

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[20] See Appendix J: Hertz First Amended Complaint.

[21] See Appendix K: TEQLease Answer and Cross-Claim.

5. Univest Capital

Quest purchased teaching and staff equipment, including mimeographs and phone systems, on credit through Univest Capital; the contract is for $92,397.[22] Kelli Miller entered into this contract without board approval. The Receiver has stopped payments to Univest and will pursue an errors and omissions claim for the outstanding liabilities through its policy with Philadelphia Insurance.

6. Tracy Truman

Tracy Truman, Quest's former counsel, sued Quest for $35,000 in outstanding legal bills.[23] On January 15, 2016 he Receiver filed an Answer on behalf of Quest asking Truman to return all Quest files, which he currently holds. [24] Truman is asserting an attorney's lien on the files due to the alleged unpaid fees and is refusing to turn over any of Quest's files. Because Truman served as Quest's counsel during the period in question, the Receiver maintains significant concerns about his knowledge of and involvement in the transactions detailed in this Report.

7. Curriculum Contracts

After discovering asbestos in a classroom in summer 2014, Kelli Miller instructed the janitorial staff to destroy all books purchased through Amplify Education, Inc. and Houghton Mifflin. Destroying all books, including ones not in the affected classroom, was an extreme action taken without board approval. Kelli Miller then purchased replacement curriculum from Amplify Education, Inc. for $50,000. The Receiver has stopped payment and is pursuing an insurance payment from Philadelphia Insurance regarding this transaction.

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[22] See Appendix L: Univest Capital Agreement.
[23] See Appendix M: Truman Complaint.
[24] See Appendix N: Answer to Complaint.

Quest also has outstanding debt of $14,552 with four other curriculum providers: Discovery Education, Houghton Mifflin, McGraw-Hill Education and Pearson Education. The receiver has stopped payments on these contracts until the Receiver reviews their validity.

8. CCSD Food Services

Quest has outstanding debt to Clark County School District for $11,142 in food services. The receiver has stopped payments on these contracts until the school's financial situation is clearer.

B. Pursue Claims Concerning Former Board Members and Employees

The Receiver has filed two claims under the loss portion of its Philadelphia Insurance policy relating to Kelli Miller and Lee Miller. A payroll audit revealed that Quest overpaid Kelli Miller by $40,652 and Lee Miller by $30,136. The Receiver seeks to open two separate claims, each for the policy limit of $50,000. Quest hopes to recoup the entire amount from the policies, less the $1,000 deductible per claim.

The Receiver dismissed Debra Roberson, Quest's Superintendent and Site Administrator for Torrey Pines, on February 9, 2016. After dismissing Roberson, the Receiver promoted Janelle Veith, formerly the Director of Curriculum and Assessment, to Site Administrator at the Torrey Pines campus.

The Receiver is also investigating potential claims against David Olive and Kelli Miller for the contracts they signed without Board approval. The Receiver may also seek indemnity from them for any litigation regarding contracts executed without Board consent.

Quest also paid several brokers and developers for potential campus sites that were never developed. Quest was unable to recover over $764,000 that it invested in these sites, including costs from its construction attempts.[25] The Receiver will attempt to recover the funds that were invested in these development projects, either from the developers or through a claim with Philadelphia Insurance.

C. Campus Evaluations

The Receiver is assessing the viability of each campus individually and the school as a whole. If the Receiver cannot recoup previous overpayments, resolve pending litigation and renegotiate reasonable future payments one or more individual campuses may have to close.

1. Torrey Pines

The Torrey Pines campus currently houses 742 students. Quest moved from Montecito to Torrey Pines for the 2015 school year, after the Montecito lease expired. Quest could have renewed the lease for Montecito, which was in a more suitable location for a school and less expensive. Instead, Torrey Pines moved to a business park with three permanent buildings and eight portable classrooms.[26] Four of the portables are leased for one year; the other four portables were leased for two years. All eight portables have two-year permits which end summer 2017.

With a comprehensive build-out plan, Torrey Pines could be a suitable campus.[27] But the campus as currently built is not an appropriate long-term home for the school. While the building floorplans vary, the landlord has taken some steps to provide the campus with a more academic setting, adding a small playground, large cafeteria, perimeter fencing and marked floor tiles; but much more must be done. The lease currently costs 15% of total campus revenue.[28]

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[25] See Appendix O: Transactions Related to New Facilities.
[26] See Appendix P: Torrey Pines Lease.
[27] See Appendix Q: Torrey Pines Build-Out Plan.
[28] See Appendix R: Chart of Lease Costs per Campus.

The landlord has allowed Quest to defer rent for four months while the Receiver attempts to renegotiate the lease. Even if they can agree on a more affordable lease, the space must be upgraded to provide appropriate facilities for a school. If the space cannot be transformed to an acceptable school environment, the campus should be closed. The Receiver has begun negotiations with the landlord, but these negotiations may take some time to complete. If the above conditions can be met, the Receiver recommends keeping the Torrey Pines campus open at its current location.

2. Alexander

The Alexander campus is financially sustainable. It houses 67 students at full capacity and mortgage costs are 12% of total campus revenue.[29] The building functions well as a kindergarten campus. While it is an older building, it is not in disrepair. Quest is servicing the debt on the Alexander campus.

3. Roberson

The Roberson campus is a two-story building, also located in a business park.[30] Unlike Torrey Pines, the business park is vibrant and has other tenants. But because the business park does not have sports facilities or field space, Roberson rents additional space for sports activities from the YMCA. The Roberson space is less functional and more expensive on a per student basis than the previous campuses discussed. With a Special Use Permit allowing only 215 students, the Roberson lease is 44% of total campus revenue.[31]

Quest has stopped paying rent for the space and will either renegotiate the lease or close the campus. The landlord, who also owns the Torrey Pines property, has allowed Quest to remain

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[29] See Appendix R: Chart of Lease Costs per Campus.
[30] See Appendix S: Roberson Lease.
[31] See Appendix R: Chart of Lease Costs per Campus. In January 2016, Quest moved 103 students from Roberson to the Torrey Pines campus to meet the 215 maximum allowable student requirement under the existing Special Use Permit.

on campus despite four months of nonpayment. Even if the lease is renegotiated to an appropriate cost, it is not clear that this space is appropriate for high school students.

Due to other tenants' complaints at the business park, the Las Vegas City Council is reviewing Quest's Special Use Permit which expires in July 2016. If the Special Use Permit is not renewed in July, the campus would need to close immediately, creating a significant hardship for the families enrolled at Roberson for the 2016-2017 school year.

4. Bridger

The Bridger campus is located in an older building appropriate for use as an elementary school. The antiquated fire alarm system requires an upgrade and maintenance costs continue to accumulate. Bridger has a capacity of 208 students and is Quest's most expensive campus; the lease costs 61% of total campus revenue.[32]

This cost is due in part to the CFEF sublease agreement.[33] CFEF pays $27,878 per month to lease the property, but charges Quest $43,034.44 per month.[34] This increased cost has exacerbated the problems posed by this financially unsustainable property.

When Olive held positions at Quest and CFEF, he delayed Bridger's rent payments to CFEF to accommodate increased expenditures from expansion and infrastructure contracts. After Olive stepped down, CFEF issued Quest a notice to pay rent or quit for its failure to pay rent on the Bridger campus since February 1, 2015.[35] The Receiver responded on December 15, 2015, detailing why the sublease is unenforceable; CFEF promptly withdrew the notice to quit.

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[32] See Appendix R: Chart of Lease Costs per Campus.
[33] Relationship and lease described in III.B.1, *infra*.
[34] See Appendix E: Bridger Sublease August 2014.
[35] See Appendix T: Five-Day Notice to Pay Rent or Quit.

The Receiver has stopped payments to CFEF and has been negotiating directly with the landlord who has expressed a willingness to reduce the rent. Even if the lease is renegotiated to an appropriate cost, the space must be upgraded to be appropriate for a school.

5. Additional Spaces

Quest Academy has a lease for executive suites at the Azure Business Park[36] and sports facilities at the YMCA of Southern Nevada.[37] Quest signed these leases to acquire additional space for the business office even before Roberson moved to Azure Drive, and to rent classrooms and gymnasium spaces when other space was inadequate. The landlord has expressed a willingness to find a new tenant for the Executive Suites to assume Quest's space. The YMCA lease is $14,750 per month. The Receiver worked with the YMCA's Executive Director to replace the expensive and underused agreement. Under a new agreement, the Quest will pay on a use-basis, saving considerable money and maintaining sports facilities for the students.

D. Rightsize Staff

To meet the budget shortfall, Quest needed to rightsize its staff. The Receiver approved adjusting salaries and recommended downsizing staff. On October 16, 2015 and effective for November 10 payroll, salaries were reduced across the board in the following manner:

- Reduce salaries greater than $90,000 by 15%;
- Reduce salaries from $80,000 to $90,000 by 10%;
- Reduce salaries from $70,000 to $79,999 by 5%;
- Reduce salaries less than $70,000 by 2%.

Additionally, the Receiver combined responsibilities in several positions to streamline processes and reduce performance time. Other positions were simply unnecessary and, therefore,

[36] See Appendix U: Executive Suites Lease.
[37] See Appendix V: YMCA Lease.

eliminated. The Receiver assessed rightsizing recommendations based on the position's criticality, performance and cost. To minimize the direct effect on student schedules and curriculum, cuts are planned in phases. Cuts have been made on a rolling basis since September and saved over $400,000 .[38]

E. Implement Financial Management and Capacity Plan

Quest's current financial management system faces several obstacles. The financial management structure and processes have numerous shortcomings. Prior to the Receiver's appointment, attempts to address issues with financial management were both sporadic and unsuccessful.

1. Shortcomings of the Current System

When the receivership began, Quest was using the 2012 QuickBooks Accountant software to manage most of its financial information. This software is no longer supported by Intuit Software and had to be replaced. The hardware used to access this information is antiquated and unreliable. The licenses were loaded individually, providing user overlap issues and multi-user interface problems. Quest's antiquated processes created heavier workloads. Processes like envelope stuffing for bill payment, manual data entry and the use of insufficient technology increase errors, created delays and reduced productivity.

Due to tight resources and constant turnover, the financial department has remained understaffed. Partial and incomplete staffing has created unrealistic workloads, consolidated roles and responsibilities, and a reduced capability to perform checks and balances. In many cases shorthanded staffing resulted in untimely information. The staff's limited knowledge of

[38] See Appendix W: Payroll Reduction.

fundamental concepts and techniques used in financial management allowed for uninformed decision-making and lead to misunderstanding the school's financial status.

During previous fiscal years, Quest experienced multiple cases of self-dealing, inadequate bookkeeping, high personnel turnover in the financial department and lost, voided or deleted data in the accounting system. The reporting process produced incomplete, inconsistent and unreliable information.

Resource allocation decisions become more difficult when the budget fails to fully recognize all activities. The 2014-2015 fiscal year budget was unrealistic at $12 million, over $3 million more than capacity enrollment numbers could justify. Expenditure expectations were vague and generalized, allowing off-budget expenditure decisions to become the norm. The approved budget was not entered into the accounting system to allow for timely tracking of estimated versus actual reporting. The 2015-2016 FY Budget was developed more practically, based on anticipated enrollment; however, anticipated expenditures were presented as vaguely as the previous year.

2. Financial Management Plan

In order to rectify these shortcomings, the Receiver recommends the software, responsibilities and policy changes detailed below.

The Receiver purchased updated accounting software and implemented the software on a server-based system, which allows multiple users to interface the system concurrently. Bundled with the purchase is a free upgrade to the 2016 QuickBooks Accountant edition, allowing for support from the software company through 2020. To be most effective, Quest should upgrade the software not less than every two years. This will keep pace with system changes and reduce training and implementation costs.

Using software Quest already owns in new ways can improve the purchase-request process and other workflow processes. For example, using SharePoint from Office 360 for Education will increase performance and reduce errors. SharePoint is a structured internal share drive allowing school-wide access to documentation, forms and templates. Additional software solutions will also be required. The payroll system and accounting system are completely independent, requiring a solution for transporting information from one system to the other to allow for tracking payroll costs against the budget without time-consuming manual entry.

While technological advances can increase productivity and reduce performance time, the financial department still requires increased staffing to match the demand of daily activities. The Receiver has redefined Quest's essential financial roles and has delineated auditable roles and responsibilities. Taking these steps insures increased work performance, reduced workloads and increased oversight of financial activities. The new financial roles include the following:

- Chief Financial Officer or Controller: Report to the Receiver. Responsible for annual planning and budgeting processes, facilitating and advising on financial decision-making, and establishing and maintaining sound financial policies, procedures, systems and controls for the School. Perform day-to-day management of the School's financial operations, including allocating resources to serve the needs of the School. Review payroll reports for accuracy and entry into the accounting system for payment. Prepare and report monthly financial reports to the Board. Review Purchase Requests for approval. Manage and reconcile bank accounts, credit card accounts and other lines of credit. Prepare and print checks, perform bill pay operations, and prepare transfers as required. Match invoices to checks, obtain all signatures for checks and distribute checks accordingly. Prepare, submit, and maintain all local, state, and federal financial reporting as required.

- Accounts Payable: Report to the CFO. Review all invoices for appropriate documentation and approval prior to payment. Prioritize invoices according to cash discount potential and payment terms. Process check requests. Audit and process credit card bills and match to statements. Respond to all vendor inquiries. Reconcile vendor statements, research and correct discrepancies. Assist in month end closing. Maintain files and documentation thoroughly and accurately, in accordance with company policy and accepted accounting practices. Assist in annual audit reporting. Assist CFO as needed.
- Purchasing: Report to the CFO. Assist in budget development process regarding anticipated expenditures including federal, state and local funding, fundraising, and sports and intramurals activities. Prepare purchase requests for approval. Develop Purchase Orders to track against budget line items within the accounting system. Manage purchasing activities based on approved Purchase Requests. Sort and distribute incoming mail. Match invoices to approve Purchase Requests for processing. Assist CFO as needed.

School decision-makers must have an understanding of fundamental financial concepts and reporting. Training current staff in fundamental financial management techniques and employing seasoned financial personnel in key positions will accomplish this goal.

The Receiver is helping to develop an audit policy which will promote timely oversight of the financial system, in turn, allowing for prompt remedial action. By developing clear roles and responsibilities, each position will have a chain of command that allows for weekly review of work performed. By using the accounting Audit Trail and data entry calendar, Quest can perform consistent financial reviews and analyze report data. Thus, work performed can be evaluated and errors identified. The school will also develop a Financial Policies and Procedures Manual that reflects Nevada Revised Statutes by using the Nevada Department of Education Suggested Model Financial Policies for Nevada Charter Schools, and the SPCSA policies that govern Quest.

The CFO is responsible for creating an accurate and precise budget. The CFO will deliver the budget message and actual budget document to the budget committee when they are complete. Proper budgeting procedures allow the school to conduct comprehensive planning and budget development, leading to increased capability to perform and track expenses against anticipated costs. Budget preparation will consist of the following process:

- Fiscal Management Goals: The Receiver will review the fiscal needs of the charter school annually, considering instruction, capital outlay, building improvements and adjustments to accommodate any growth or decline of student enrollment or charter school area. The Receiver encourages input from staff, parents, and members of the community as a part of the review and recommendation process. After considering the recommendations, the Receiver will adopt fiscal goals for the school year. The charter school budget will be prepared in full compliance with NRS 386.550 and NAC 386.370.
- Budget Preparation: The CFO has the overall responsibility for budget preparation and will develop such procedures necessary to ensure that the proposed budget reflects all areas of charter school operation. The CFO and the Receiver will establish budget priorities for the charter school and will make appropriate recommendations related to those priorities.

F. Performance Audit

The Receiver will soon conduct a performance audit of each campus in preparation for the 2016-2017 school year.

VI. CONCLUSION

When the Receiver was appointed on October 26, 2016, Quest was in such a desperate financial position that, in addition to its inability to pay over $2 million in outstanding debt, the school was days away from being unable to make payroll. With the cooperation of some creditors and landlords, Quest may be able to achieve solvency. Quest faces a long road before it can emerge from receivership as a stable, high-functioning charter school operating under the oversight of a traditional governing board. The key next steps for the Receiver in cooperation with the SPCSA include:

- Deciding whether to close the Roberson campus;
- Negotiating new leases at Bridger and Torrey Pines;
- Resolving outstanding legal matters with certain creditors;
- Initiating claims and suits to recover funds;
- Initiating comprehensive performance audit in preparation for next year
- Continuing to investigate prior wrongdoing and potentially recommend that the government pursue civil and/or criminal complaints against certain former board members and administrators.