

**CESAR CHAVEZ COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

BASIC FINANCIAL STATEMENTS

(AUDITED)

*FOR THE FISCAL YEAR ENDED
JUNE 30, 2011*

JESSE M. HEMPHILL, TREASURER



Dave Yost • Auditor of State

Board of Directors
Cesar Chavez College Preparatory Academy
1500 West 3rd Ave. Suite 125
Columbus, Ohio 43212

We have reviewed the *Independent Accountants' Report* of the Cesar Chavez College Preparatory Academy, Franklin County, prepared by Julian & Grube, Inc., for the audit period July 1, 2010 through June 30, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Cesar Chavez College Preparatory Academy is responsible for compliance with these laws and regulations.

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Dave Yost
Auditor of State

February 17, 2012

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**CESAR CHAVEZ COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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Julian & Grube, Inc.
Serving Ohio Local Governments

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Independent Accountants' Report

Cesar Chavez College Preparatory Academy
1500 West 3rd Ave.
Suite 125
Columbus, OH 43212

To the Board of Directors:

We have audited the accompanying financial statements of the Cesar Chavez College Preparatory Academy, Franklin County, Ohio, as of and for the fiscal year ended June 30, 2011, which collectively comprise the Cesar Chavez College Preparatory Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Cesar Chavez College Preparatory Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Cesar Chavez College Preparatory Academy, as of June 30, 2011, and the respective changes in financial position, and its cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying basic financial statements have been prepared assuming that the Cesar Chavez College Preparatory Academy will continue as a going concern. As described in Note 15 to the basic financial statements, the Cesar Chavez College Preparatory Academy has been suffering declining net assets due to expenditures exceeding revenues, current liabilities exceeding current assets and the need for an operating loan, which raises substantial doubt about its going concern. The basic financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2011 on our consideration of the Cesar Chavez College Preparatory Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Independent Accountants' Report
Cesar Chavez College Preparatory Academy
Page Two

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

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
December 28, 2011

**Cesar Chavez College Preparatory Academy
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)**

The management discussion and analysis of Cesar Chavez College Preparatory Academy's (the Academy) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

Key financial highlights for the Cesar Chavez College Preparatory Academy during the period ended June 30, 2011 are as follows:

- Total ending net assets of the Academy were (\$48,398) for 2011 and \$56,862 for 2010.
- Total assets were \$70,806 for 2011 and \$95,368 for 2010.
- Total liabilities were \$119,204 for 2011 and \$38,506 for 2010.
- The Academy's operating (loss) was (\$465,163) for 2011 and (\$111,864) for 2010.

Using this Financial Report

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

Statement of Net Assets

The statement of net assets answers the question, "How did we do financially during the fiscal year?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term, using the accrual basis of accounting and the economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

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

**Cesar Chavez College Preparatory Academy
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)**

Table 1 provides a summary of the Academy's net assets for June 30, 2011 and 2010.

**Table 1
Net Assets**

	<u>2011</u>	<u>2010</u>
Assets:		
Current Assets	\$42,491	\$78,391
Capital Assets, Net	<u>28,315</u>	<u>16,977</u>
Total Assets	<u>70,806</u>	<u>95,368</u>
Liabilities:		
Current liabilities	<u>119,204</u>	<u>38,506</u>
Total Liabilities	<u>119,204</u>	<u>38,506</u>
Net Assets:		
Invested in Capital		
Assets	28,315	16,977
Restricted	835	0
Unrestricted	<u>(77,548)</u>	<u>39,885</u>
Total Net Assets	<u>\$(48,398)</u>	<u>\$56,862</u>

**Cesar Chavez College Preparatory Academy
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)**

Table 2 shows the changes in net assets for fiscal years ended June 30, 2011 and 2010.

**Table 2
Change in Net Assets**

	<u>2011</u>	<u>2010</u>
Operating Revenues:		
Foundation	\$591,311	\$331,275
Miscellaneous Revenue	1,050	0
Non-Operating Revenues:		
State and Federal Revenue	<u>359,903</u>	<u>126,583</u>
Total Revenues	<u>952,264</u>	<u>457,858</u>
 Operating Expenses:		
Salaries & Wages	375,719	144,804
Fringe Benefits	45,183	21,662
Purchased Services	521,985	235,173
Materials and Supplies	56,091	40,778
Capital Outlay	54,664	0
Depreciation Expense	2,982	498
Other Expenses	900	224
Total Expenses	<u>1,057,524</u>	<u>443,139</u>
 Change in Net Assets	(105,260)	14,719
Net Assets, Beginning of Year	<u>56,862</u>	<u>42,143</u>
Net Assets, End of Year	<u>(\$48,398)</u>	<u>\$ 56,862</u>

Operating Revenues, which are composed of Foundation Payments, were \$591,311 for 2011 and \$331,275 for 2010, which represents 62% for 2011 and 72% for 2010 of total revenues. 84% for 2011 and 88% for 2010 of operating expenses are composed of contractual obligations relating to payroll and purchased services.

**Cesar Chavez College Preparatory Academy
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)**

Capital Assets

At June 30, 2011, capital assets of the Academy were \$31,795, which were offset by \$3,480 in accumulated depreciation resulting in net capital assets of \$28,315. There was a total of \$14,320 in purchases which met the Academy's capitalization threshold of \$500 during the year. See Note 12 of the notes to the basic financial statements for additional information.

Debt

At June 30, 2011, the debt obligation of the Academy consisted solely of loan obtained from the management company to provide financial assistance for day to day operation of the Academy. At June 30, 2011 the outstanding principal balance was \$55,000. See Note 13 of the notes to the basic financial statements for additional information.

Restrictions and Other Limitations

The future stability of the Academy is not without challenges. The Academy does not receive any funds from taxes. The primary source of funding is the state foundation program. An economic slowdown in the state could result in budgetary cuts to education, which would have a negative impact on the Academy.

Current Financial Related Activities

The Academy is sponsored by Richland Academy. The Academy is reliant upon State Foundation monies and Federal Sub-Grants to offer quality, educational services to students. In order to continually provide learning opportunities to the Academy's students, the Academy will apply resources to best meet the needs of its students. It is the intent of the Academy to apply for other State and Federal funds that are made available to finance its operations.

Contacting the Academy

This financial report is designed to provide a general overview of the finances of the Cesar Chavez College Preparatory Academy and to show the Academy's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to the Treasurer of Cesar Chavez College Preparatory Academy, 1500 West 3rd Ave. Suite 125, Columbus, Ohio 43212.

**CESAR CHAVEZ COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY**

**STATEMENT OF NET ASSETS
AS OF JUNE 30, 2011**

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 12,337
Intergovernmental Receivables	30,154
Total Current Assets	<u>42,491</u>

Non-Current Assets

Capital Assets - Net	28,315
TOTAL ASSETS	<u><u>\$ 70,806</u></u>

LIABILITIES

Current Liabilities

Accounts Payable	\$ 24,545
Accrued Wages Payable	34,352
Intergovernmental Payable	5,307
Notes Payable	55,000
Total Current Liabilities	<u>119,204</u>
TOTAL LIABILITIES	<u>119,204</u>

NET ASSETS

Invested in Capital Assets	28,315
Restricted	835
Unrestricted	(77,548)
TOTAL NET ASSETS	<u><u>\$ (48,398)</u></u>

See accompanying notes to basic financial statements

**CESAR CHAVEZ COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

OPERATING REVENUES	
Foundation Payments	\$ 591,311
Miscellaneous	1,050
Total Operating Revenues	<u>592,361</u>
 OPERATING EXPENSES	
Salaries & Wages	375,719
Fringe Benefits	45,183
Purchased Services	521,985
Materials and Supplies	56,091
Capital Outlay	54,664
Depreciation Expense	2,982
Other Expenses	900
Total Operating Expenses	<u>1,057,524</u>
 Operating Loss	 <u>(465,163)</u>
 NON-OPERATING REVENUE	
State and Federal Grant Revenue	<u>359,903</u>
Total Non-Operating Revenues	<u>359,903</u>
 Change in Net Assets	 (105,260)
 Net Assets, Beginning of Year	 <u>56,862</u>
 Net Assets, End of Year	 <u><u>\$ (48,398)</u></u>

See accompanying notes to basic financial statements

**CESAR CHAVEZ COLLEGE PREPARATORY ACADEMY
FRANKLIN COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Increase (Decrease) In Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from State of Ohio	\$ 561,946
Cash Received from Miscellaneous Revenue	1,050
Cash Payments to Employees for Services and Benefits	(408,340)
Cash Payments to Suppliers for Goods and Services	<u>(611,423)</u>
Net Cash Used in Operating Activities	<u>(456,767)</u>
 Cash Flows from Noncapital Financing Activities	
Cash Received From Federal and State Grants	<u>360,902</u>
Net Cash Provided by Noncapital Financing Activities	<u>360,902</u>
 Cash Flows from Capital and Related Financing Activities	
Cash Received from Loan Proceeds	150,000
Cash Payments on Loan	(95,000)
Cash Payments for Capital Acquisitions	<u>(14,320)</u>
Net Cash Provided by Capital Financing Activities	<u>40,680</u>
 Net Decrease In Cash and Cash Equivalents	 (55,185)
Cash and Cash Equivalents, Beginning of Year	<u>67,522</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 12,337</u></u>
 Reconciliation of Operating Loss to Net Cash Used in Operating Activities	
Operating Loss	<u>\$ (465,163)</u>
 Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:	
Depreciation Expense	2,982
Changes in Assets and Liabilities:	
Increase in Intergovernmental Receivable	(20,284)
Increase in Accounts Payable	22,217
Increase in Accrued Wages and Benefits	11,538
Decrease in Intergovernmental Payable	<u>(8,057)</u>
Total Adjustments	<u>8,396</u>
 Net Cash Used in Operating Activities	 <u><u>\$ (456,767)</u></u>

See accompanying notes to basic financial statements

**Cesar Chavez College Preparatory Academy
Franklin County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011**

1. Description of the School and Reporting Entity

Cesar Chavez College Preparatory Academy (the Academy), is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy, which is part of the State's education program, is independent of any school district and is non sectarian in its programs, admission policies, employment practices, and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy.

The Academy was approved for operation under a contract with the Richland Academy during the fiscal year ended June 30, 2011, and renews annually every June 30th unless cancelled by either party with 90 days' notice.

The Academy is required to operate under the direction of a Governing Board consisting of at least five members. The Governing Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards and qualifications of teachers.

On June 23, 2008, the Academy and Educational Solutions Co. entered into a management contract. Under this contract, Educational Solutions Co. is an Ohio non-profit corporation that was established and is operated for educational purposes to support Ohio community schools. It was granted federal tax exemption under IRS Section 501(c)(3), and it is classified as a public charity under IRS Section 509(a)(3), a supporting organization.

2. Summary of Significant Accounting Policies

The financial statements of the Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The Academy has elected not to apply FASB statements and interpretations issued after November 30, 1989. The more significant of the Academy's accounting policies are described below.

**Cesar Chavez College Preparatory Academy
Franklin County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011**

2. Summary of Significant Accounting Policies (Continued)
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A. Basis of Presentation

Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation, if any) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the Statement of Net Assets. The difference between total assets and liabilities are defined as net assets. The Statement of Revenues, Expenses and Changes in Net Assets present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary Process

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Section 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does prescribe an annual budget requirement in addition to preparing a five-year forecast which is to be updated on an annual basis.

D. Cash and Cash Equivalents

All monies received by the Academy are maintained in a demand deposit account. For internal accounting purposes, the Academy segregates its cash into separate funds. For purposes of the statement of cash flows, the Academy considers all investments having original maturities of 90 days or less as cash equivalents.

Cesar Chavez College Preparatory Academy
Franklin County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

2. Summary of Significant Accounting Policies (Continued)

E. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The Academy does not possess any infrastructure. The Academy maintains a capitalization threshold of \$500. Improvements are capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets are depreciated. Improvements to capital assets are depreciated over the remaining useful life of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Life</u>
Buildings	40 years
Furniture, Fixtures, and Equipment	5 years
Leasehold Improvements	15 years

F. Estimates

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

G. Intergovernmental Revenues

The Academy is a participant in the State Foundation Program. The foundation funding is recognized as operating revenues in the accounting period in which it is earned, essentially the same as the fiscal year. Federal and state grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements of the grants have been met.

Intergovernmental revenues associated with the Foundation Program totaled \$591,311 for fiscal year 2011. Revenues associated with specific education grants from the state and federal governments totaled \$359,903 during fiscal year 2011.

H. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly by the Academy's primary mission. For the Academy, operating revenues include revenues paid through the State Foundation Program. Operating expenses are necessary costs incurred to support the Academy's primary mission, including salaries, benefits, purchased services, materials and supplies and depreciation, if any.

Cesar Chavez College Preparatory Academy
Franklin County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

2. Summary of Significant Accounting Policies (Continued)

Non-operating revenues and expenses are those that are not generated directly by the Academy's primary mission. Various federal and state grants, interest earnings, if any, and payments made to the Academy by other instructional entities for use of the Academy's instructional staff comprise the non-operating revenues of the Academy. Interest and fiscal charges on outstanding obligations, as well as gain or loss on capital asset disposals, if any, comprise the non-operating expenses.

I. Accrued Liabilities

The Academy has recognized certain liabilities on its statement of net assets relating to expenses, which are due but unpaid as of June 30, 2011.

J. Federal Tax Exemption Status

The Academy is a non-profit organization that has been determined by the Internal Revenue Service to be exempt from federal income taxes as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code.

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, if any, consists of capital assets, net of accumulated depreciation less any outstanding capital related debt. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Restricted net assets of the Academy at year-end represent unspent federal and state grant resources for specific instructional program. The Academy applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

3. Deposits

The Academy had no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Academy or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secure.

At June 30, 2011, the carrying amount of the Academy's deposits was \$12,337 and the bank balance was \$20,105. Of the bank deposits, all were covered under FDIC. Although all statutory requirements for the deposit of public money had been followed, non-compliance with federal requirements could potentially subject the Academy to a successful claim by the FDIC.

**Cesar Chavez College Preparatory Academy
Franklin County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011**

4. Risk Management

A. Property and Liability

The Academy is exposed to various risks of loss related to torts, thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the year ended June 30, 2011, the Academy contracted with Hanover Insurance Company for its insurance coverage as follows:

General Liability per occurrence	\$1,000,000
General Liability aggregate	\$2,000,000

Settlement amounts did not exceed coverage amounts in fiscal year 2010 and 2009. There have been no significant reductions in insurance coverage from the prior year.

B. Employee Insurance Benefits

The Academy utilizes Anthem Blue Cross/Blue Shield, VSP, and Superior Dental to provide health, life, vision, and dental insurance benefits to Academy employees.

5. Defined Benefit Pension Plans

A. School Employees Retirement System

The Academy contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability, and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Plan members are required to contribute 10% of their annual covered salary and the school is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ending June 30, 2011, the allocation to pension and death benefits is 11.81%. The remaining 2.19% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The School's required contributions for pension obligations to SERS for the years ended June 30, 2011, 2010, and 2009 were \$16,127, \$4,029 and \$4,571, respectively, which equaled the required contributions for the year.

Cesar Chavez College Preparatory Academy
Franklin County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

5. Defined Benefit Pension Plans (Continued)

B. State Teachers Retirement System

The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries.

STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, Ohio 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio website at www.strsoh.org.

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

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

For the fiscal year ended June 30, 2010 (*latest information available*), plan members were required to contribute 10% of their annual covered salaries. The School was required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Academy's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2011, 2010 and 2009 were \$21,937, \$13,267, and \$18,793, respectively.

Cesar Chavez College Preparatory Academy
Franklin County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

6. Post-Employment Benefits

The Academy contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions.

For the fiscal years ended June 30, 2011, 2010 and 2009 the Academy's contributions to post-employment health care were \$1,687, \$1,021 and \$1,446 respectively; 100% has been contributed for fiscal years 2011, 2010 and 2009.

In addition to a cost-sharing multiple-employer defined benefit pension plan the School Employees Retirement System of Ohio (SERS) administers two postemployment benefit plans.

The Medicare Part B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2011 was \$96.40 for most participants, but could be as high as \$369.10 per month depending on their income. SERS' reimbursement to retirees was \$45.50. The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2011, the actuarially required allocation is .76%. The Academy's contributions for Medicare Part B for the fiscal year ended June 30, 2011, 2010 and 2009 were \$1,038, \$259 and \$294, respectively. 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans. The Health Care Fund was established under,

**Cesar Chavez College Preparatory Academy
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For the Fiscal Year Ended June 30, 2011**

6. Post-Employment Benefits (Continued)

and is administered in accordance with Internal Revenue Code § 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the year ended June 30, 2011, the health care allocation is 1.43%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. State law provides that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The Academy's contributions for health care for the fiscal years ended June 30, 2011, 2010 and 2009 were \$1,952, \$487 and \$553, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The financial reports of SERS' Health Care and Medicare B plans are included in its Comprehensive Annual Financial Report. The report can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

7. Restricted Net Assets

At June 30, 2011 the Academy reported restricted net assets totaling \$835. The nature of the net asset restrictions are federal specific educational programs.

8. Contingencies

A. Grants

Amounts received from grantor agencies are subject to audit and adjustment by the grantor. Any disallowed costs may require refunding to the grantor. Amounts, which may be disallowed, if any, are not presently determinable. However, in the opinion of the Academy, any such disallowed claims will not have a material adverse effect on the financial position of the Academy at June 30, 2011.

**Cesar Chavez College Preparatory Academy
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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011**

8. Contingencies (Continued)

B. State Funding

The Ohio Department of Education conducts reviews of enrollment data and FTE calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The Ohio Department of Education completed its review of the School's enrollment data for fiscal year 2011; this resulted in underpayment of state funding in the amount of \$20,284 for fiscal year 2011. This amount has been included as an intergovernmental receivable on the accompanying financial statements.

9. Contracted Fiscal Services

The Academy is a party to a fiscal services agreement with Hemphill & Associates ("H&A"), which is a certified public accounting company. The Agreement's term is for a twelve month period beginning July 1, 2009, and may be terminated by either party, with or without cause, by giving the other party ninety days written notice to terminate. The Agreement provides that H&A will perform the following functions for the Academy:

1. Standard Treasurer Services, including general ledger entries, basic record keeping required documents for state and federal governments, and basic accounting reports to Director and Board.
2. Basic Financial Management Services, including all of the functions in Standard Treasurer Services Package plus Financial Management Support Services, ongoing budgeting, accounting, purchasing, financial reporting, cash flow analysis, and resource all support.

10. Purchased Services

During the fiscal year ended June 30, 2011, purchased service expenses for services rendered by various vendors were as follows:

Professional Services	\$ 384,366
Property	73,698
Communication	2,798
Travel / Meeting	61,123
Total Purchased Services	<u>\$521,985</u>

**Cesar Chavez College Preparatory Academy
Franklin County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011**

11. Operating Lease

The Academy entered into a lease agreement for a building August 1, 2008 with J. Ashburn Youth Center. The lease expired June 30, 2011 and was not renewed. Lease payments to the J. Ashburn Youth Center totaled \$70,000 for the fiscal year ended June 30, 2011.

12. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2011 was as follows:

	Balance 6/30/10	Additions	Disposals	Balance 6/30/11
Furniture, Fixtures and Equipment	\$ 17,475	\$14,320	\$ -	\$31,795
Less: Accumulated Depreciation:				
Furniture, Fixtures and Equipment	(498)	(2,982)	-	(3,480)
Total Accumulated Depreciation	(498)	(2,982)	-	(3,480)
Total Capital Assets, Net	<u>\$ 16,977</u>	<u>\$11,338</u>	<u>\$ -</u>	<u>\$ 28,315</u>

13. Notes Payable / Related Party

The activity of the Academy's promissory notes payable is summarized as follows:

Obligation	Beginning Balance	Principal Proceeds	Principal Payments	Ending Balance	Amount Due in One Year
Educational Solutions	\$0	\$150,000	\$ 95,000	\$55,000	\$ 55,000

During the fiscal year ended June 30, 2011, the Academy entered into a related party note agreement with Educational Solutions, Inc. The total amount of the loan was set at \$150,000 with an interest rate of 4% per annum. The entire unpaid principal and interest shall become due immediately and payable on demand but no later than 2 years from the date of this note. The Academy paid \$95,000 by June 30, 2011, which left a remaining balance due of \$55,000 at June 30, 2011.

14. Subsequent Events

As of July 1, 2011, the Academy moved its location to 1533 Cleveland Avenue, Columbus, Ohio 43211. In addition, a new lease was signed with Travelers Rest Baptist Church for July 1, 2011 through June 30, 2012 at a cost of \$10,500 per month.

**Cesar Chavez College Preparatory Academy
Franklin County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011**

15. Deficit Balance/Going Concern Issue
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The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) which contemplates continuation of the Academy as a going concern.

The Academy had an operating loss of \$465,163, a change in net assets of (\$105,260) and net assets of (\$48,398) at the end of fiscal year 2011. In addition, the Academy received an operating loan from its management company to meet current operating expenses. Management intends to eliminate these deficits by increasing enrollment and improving operating efficiencies. As a result of an aggressive marketing campaign, the Academy's enrollment for the 2012 school year has increased over and above the 2011 level. As of November 30, the Academy's cash balance is \$1,701.



Julian & Grube, Inc.

Serving Ohio Local Governments

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Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

Cesar Chavez College Preparatory Academy
1500 West 3rd Ave.
Suite 125
Columbus, OH 43212

To the Board of Directors:

We have audited the financial statements of the Cesar Chavez College Preparatory Academy, Franklin County, Ohio, as of and for the fiscal year ended June 30, 2011, which collectively comprise Cesar Chavez College Preparatory Academy's basic financial statements and have issued our report thereon dated December 28, 2011, in which we noted that the Cesar Chavez College Preparatory Academy is experiencing certain financial difficulties that raises substantial doubt about the Cesar Chavez College Preparatory Academy's ability to continue as a going concern. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Board of Directors
Cesar Chavez College Preparatory Academy

Compliance and Other Matters

As part of reasonably assuring whether the Cesar Chavez College Preparatory Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of the management, the Board of Directors of the Cesar Chavez College Preparatory Academy, the sponsor and others within the Cesar Chavez College Preparatory Academy. We intend it for no one other than these specified parties.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
December 28, 2011



Dave Yost • Auditor of State

CESAR CHAVEZ COLLEGE PREPARATORY ACADEMY

FRANKLIN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 8, 2012**