

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

(AUDITED)

BASIC FINANCIAL STATEMENTS

*FOR THE FISCAL YEAR ENDED
JUNE 30, 2014*

MICHAEL TROPER, TREASURER



Dave Yost • Auditor of State

Board of Directors
Cesar Chavez College Preparatory School
1500 West 3rd Avenue
Suite 125
Columbus, Ohio 43212

We have reviewed the *Independent Auditor's Report* of the Cesar Chavez College Preparatory School, Franklin County, prepared by Julian & Grube, Inc., for the audit period July 1, 2013 through June 30, 2014. 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 School is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

April 21, 2015

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

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report

Cesar Chavez College Preparatory School
Franklin County
1500 West 3rd Avenue
Suite 125
Columbus, Ohio 43212

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Cesar Chavez College Preparatory School, Franklin County, Ohio, as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Cesar Chavez College Preparatory School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Cesar Chavez College Preparatory School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Cesar Chavez College Preparatory School's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Cesar Chavez College Preparatory School, Franklin County, Ohio, as of June 30, 2014, and the changes in its financial position and its cash flows for the fiscal year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 15 to the financial statements, the Cesar Chavez College Preparatory School had suffered a decreased in net position and a net position deficit. Note 15 describes management's plans regarding these matters. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2015, on our consideration of the Cesar Chavez College Preparatory School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cesar Chavez College Preparatory School's internal control over financial reporting and compliance.



Julian & Grube, Inc.
February 25, 2015

**CESAR CHAVEZ COLLEGE PREPARATORY SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)**

The management discussion and analysis of Cesar Chavez College Preparatory School's (the School) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2014. The intent of this discussion and analysis is to look at the School'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 School's financial performance.

Financial Highlights

Key financial highlights for the Cesar Chavez College Preparatory School for the fiscal year ended June 30, 2014 are as follows:

- Ending net position was (\$218,737).
- Total assets were \$84,989.
- Total liabilities were \$303,726.
- The School's operating (loss) was (\$502,749).

Using this Financial Report

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

Statement of Net Position

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

**CESAR CHAVEZ COLLEGE PREPARATORY SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)**

Table 1 provides a summary of the School's net assets for June 30, 2014 and 2013.

(Table 1)
Net Position

	2014	2013
Assets		
Current Assets	\$ 72,742	\$ 11,365
Capital Assets, Net	12,247	17,603
Total Assets	84,989	28,968
Liabilities		
Current Liabilities	303,726	151,177
Total Liabilities	303,726	151,177
Net Position		
Investment in Capital Assets	12,247	17,603
Restricted	8,888	1,287
Unrestricted	(239,872)	(141,099)
Total Net Position	\$ (218,737)	\$(122,209)

The total assets increased by \$56,021, which represents a 193.4 percent increase from total assets reported for fiscal year 2013. This is a result of the student population increasing significantly from the previous fiscal year.

Total liabilities of the School increased \$152,549 over those reported in fiscal year 2013. This is a result of the School receiving advances from Charter School Capital to support operations and other obligations.

The total net position decreased by \$96,528. Unrestricted net position decreased by \$98,733. Restricted net position increased by \$7,601.

**CESAR CHAVEZ COLLEGE PREPARATORY SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)**

Table 2 shows the changes in net position for fiscal years ended June 30, 2014 and 2013.

(Table 2)
Change in Net Position

	<u>2014</u>	<u>2013</u>
Operating Revenues		
Foundation	\$ 1,721,066	\$352,776
Non-Operating Revenues		
Federal and State	397,783	65,503
Miscellaneous	8,438	1,145
Total Revenues	<u>2,127,287</u>	<u>419,424</u>
Operating Expenses		
Salaries & Wages	-	219,550
Fringe Benefits	-	71,128
Purchased Services	2,188,002	144,045
Material and Supplies	900	3,259
Depreciation	5,356	8,220
Other Expenses	29,557	20
Total Expenses	<u>2,223,815</u>	<u>446,222</u>
Change in Net Position	(96,528)	(26,798)
Net Position, Beginning of Year	<u>(122,209)</u>	<u>(95,411)</u>
Net Position, End of Year	<u>\$ (218,737)</u>	<u>\$ (122,209)</u>

Total revenue increased \$1,707,863 during this fiscal year compared with the prior fiscal year. Total expenses reported for this fiscal year were \$1,777,593 more than the expenses reported for fiscal year 2013.

Capital Assets

At June 30, 2014, capital assets of the School were \$31,795, which were offset by \$19,548 in depreciation resulting in net capital assets of \$12,247. See Note 9 of the notes to the basic financial statements for additional information.

**CESAR CHAVEZ COLLEGE PREPARATORY SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)**

Working Capital Advances

During fiscal year 2014, the School entered into a revenue purchase agreement with Charter School Capital. Charter School Capital purchases State Aid (Foundation) payment due to the School in exchange, provides funding to the School in advance of the State payment distribution date. As the School receives monthly State funding, these advances are repaid.

During the fiscal year, the School received \$770,577 in working capital from Charter School Capital. At June 30, 2014, the School had outstanding advances of \$249,500. See Note 13 of the notes to the basic financial statements for additional information.

Restrictions and Other Limitations

The future stability of the School is not without challenges. The School 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 School.

Current Financial Related Activities

The School is sponsored by Richland Academy. The School 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 School's students, the School will apply resources to best meet the needs of its students. It is the intent of the School to apply for other State and Federal funds that are made available to finance its operations.

Contacting the School

This financial report is designed to provide a general overview of the finances of the Cesar Chavez College Preparatory School and to show the School'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 School, 1500 West Third Avenue, Suite 125, Columbus, Ohio 43212.

**CESAR CHAVEZ COLLEGE PREPARATORY SCHOOL
FRANKLIN COUNTY**

**STATEMENT OF NET POSITION
AS OF JUNE 30, 2014**

ASSETS

Current Assets

Cash	\$ 19,975
Intergovernmental Receivable	<u>52,767</u>
Total Current Assets	<u>72,742</u>

Non-Current Assets

Capital Assets - Net	<u>12,247</u>
TOTAL ASSETS	<u>84,989</u>

LIABILITIES

Current Liabilities

Accounts Payable	51,958
Intergovernmental Payable	2,268
Advances Payable	<u>249,500</u>
Total Current Liabilities	<u>303,726</u>
TOTAL LIABILITIES	<u>303,726</u>

NET POSITION

Investment in Capital Assets	12,247
Restricted	8,888
Unrestricted	<u>(239,872)</u>
TOTAL NET POSITION	<u>\$ (218,737)</u>

See accompanying notes to the financial statements.

**CESAR CHAVEZ COLLEGE PREPARATORY SCHOOL
FRANKLIN COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR FISCAL YEAR ENDED JUNE 30, 2014**

OPERATING REVENUES	
Foundation Payments	\$ 1,721,066
Total Operating Revenues	<u>1,721,066</u>
OPERATING EXPENSES	
Purchased Services	2,188,002
Materials and Supplies	900
Depreciation Expense	5,356
Miscellaneous Expenses	29,557
Total Operating Expenses	<u>2,223,815</u>
Operating Loss	<u>(502,749)</u>
NON-OPERATING REVENUE / (EXPENSES)	
Federal Grant Revenue	397,783
Miscellaneous Revenue	8,438
Total Non-Operating Revenues / (Expenses)	<u>406,221</u>
Change in Net Position	(96,528)
Net Position, Beginning of Year	<u>(122,209)</u>
Net Position, End of Year	<u>\$ (218,737)</u>

See accompanying notes to the financial statements.

**CESAR CHAVEZ COLLEGE PREPARATORY SCHOOL
FRANKLIN COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

INCREASE (DECREASE) IN CASH

Cash Flows from Operating Activities

Cash Received from State of Ohio	\$ 1,721,066
Cash Payments to Suppliers for Goods and Services	<u>(2,229,645)</u>
Net Cash Used in Operating Activities	<u>(508,579)</u>

Cash Flows from Noncapital Financing Activities

Cash Received From Federal and State Grants	346,688
Cash Received From Advances	770,577
Cash Paid on Sales for Advances	(521,077)
Cash Paid on Notes Payable	(78,223)
Cash Received From Miscellaneous Sources	<u>8,438</u>
Net Cash Provided by Noncapital Financing Activities	<u>526,403</u>

Net Increase In Cash 17,824

Cash, Beginning of Year	<u>2,151</u>
Cash, End of Year	<u>\$ 19,975</u>

Reconciliation of Operating Loss to Net Cash Used in Operating Activities

Operating Loss	<u>\$ (502,749)</u>
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Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:

Depreciation Expense	5,356
Changes in Assets and Liabilities:	
Decrease in Refunds	7,542
Increase in Accounts Payable	2,126
Decrease in Accrued Wages	(22,792)
Increase in Intergovernmental Payable	<u>1,938</u>
Total Adjustments	<u>(5,830)</u>

Net Cash Used in Operating Activities \$ (508,579)

See accompanying notes to the financial statements.

**CESAR CHAVEZ COLLEGE PREPARATORY SCHOOL
FRANKLIN COUNTY
NOTES TO THE FINANCIALS
FOR FISCAL YEAR ENDED JUNE 30, 2014**

1. Description of the School and Reporting Entity

Cesar Chavez College Preparatory School (the School), is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School, 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 School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School.

The School was approved for operation under a contract with the Richland Academy during the fiscal year ended June 30, 2012, and renews annually every June 30th unless cancelled by either party with 90 days' notice.

The School 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 School 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. On July 1, 2013, the School and Educational Solutions Co. entered into a full-performance management contract. In addition to the School, Educational Solutions Co. currently supports two other Ohio community schools. Each of its supported schools are members of Educational Solutions Co., as such term is defined by Ohio Revised Cod Chapter 1702. As members of Educational Solutions Co., the schools, under Educational Solutions Co.'s Code of Regulations, elect a majority of the Board of Directors of Educational Solutions Co. As a result of this relationship, Educational Solutions Co. is "operated, supervised, or controlled by" its supported schools, as such term is defined by Regs. Section 1.509(a)-4(g), and Educational Solutions Co. is a Type I supporting organization. As a result of this relationship, Educational Solutions Co. is responsive to the needs and demands of its supported schools and is an integral part of their operations.

2. Summary of Significant Accounting Policies

The financial statements of the School 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 more significant of the School's accounting policies are described below.

**CESAR CHAVEZ COLLEGE PREPARATORY SCHOOL
FRANKLIN COUNTY
NOTES TO THE FINANCIALS
FOR FISCAL YEAR ENDED JUNE 30, 2014**

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 Position. The difference between total assets and liabilities are defined as net position. The Statement of Revenues, Expenses and Changes in Net Position present increases (i.e., revenues) and decreases (i.e., expenses) in net total position.

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

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

C. Budgetary Process

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

D. Cash

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

**CESAR CHAVEZ COLLEGE PREPARATORY SCHOOL
FRANKLIN COUNTY
NOTES TO THE FINANCIALS
FOR FISCAL YEAR ENDED JUNE 30, 2014**

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 School does not possess any infrastructure. The School 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 GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from these estimates.

G. Intergovernmental Revenues

The School 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 \$1,721,066 for fiscal year 2014. Revenues associated with specific education grants from the state and federal governments totaled \$397,783 during fiscal year 2014.

H. Operating Revenues and Expenses

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

**CESAR CHAVEZ COLLEGE PREPARATORY SCHOOL
FRANKLIN COUNTY
NOTES TO THE FINANCIALS
FOR FISCAL YEAR ENDED JUNE 30, 2014**

2. Summary of Significant Accounting Policies (Continued)
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depreciation, if any.

Non-operating revenues and expenses are those that are not generated directly by the School's primary mission. Various federal and state grants, interest earnings, if any, and payments made to the School by other instructional entities for use of the School's instructional staff comprise the non-operating revenues of the School. 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 School has recognized certain liabilities on its statement of net assets relating to expenses, which are due but unpaid as of June 30, 2014. Accrued liabilities totaled \$303,726 at June 30, 2014.

J. Federal Tax Exemption Status

The School 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. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position may report a separate category for deferred outflows of resources. Deferred outflows of resources represent consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until then. At June 30, 2014, the School reported no deferred outflows of resources.

In addition to liabilities, the statement of net position may report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until then. At June 30, 2014, the School had no items which were classified as deferred inflows of resources.

L. Net Position

Net position represent the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation reduced by any outstanding capital related debt. Net position 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.

**CESAR CHAVEZ COLLEGE PREPARATORY SCHOOL
FRANKLIN COUNTY
NOTES TO THE FINANCIALS
FOR FISCAL YEAR ENDED JUNE 30, 2014**

3. Deposits

At June 30, 2014, the carrying amount of the School's deposits was \$19,975 and the bank balance was \$21,226. 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 School to a successful claim by the FDIC.

4. Risk Management

A. Property and Liability

The School 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, 2014, the School contracted with Hanover Insurance Company for its insurance coverage as follows:

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

There were no significant reduction in insurance coverage from fiscal year 2014 and settlement amounts did not exceed coverage amounts in the past 3 fiscal years.

B. Employee Insurance Benefits

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

5. Defined Benefit Pension Plans

The School has contracted with Educational Solutions to provide employee services and to pay those employees. However, these contract services do not relieve the School of the obligation for remitting pension contributions. The retirement systems consider the School as the Employer-of-Record and the School ultimately responsible for remitting retirement contributions to each of the systems noted below: (See Note 10)

**CESAR CHAVEZ COLLEGE PREPARATORY SCHOOL
FRANKLIN COUNTY
NOTES TO THE FINANCIALS
FOR FISCAL YEAR ENDED JUNE 30, 2014**

5. Defined Benefit Pension Plans (Continued)

A. School Employees Retirement System

The School 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**.

Funding Policy

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, 2014, the allocation to pension and death benefits is 13.10%. The remaining .90% 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, 2014, 2013, and 2012 were \$19,714, \$7,108, and \$12,752, respectively, which equaled the required contributions for the year.

B. State Teachers Retirement System

The School 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.

**CESAR CHAVEZ COLLEGE PREPARATORY SCHOOL
FRANKLIN COUNTY
NOTES TO THE FINANCIALS
FOR FISCAL YEAR ENDED JUNE 30, 2014**

5. Defined Benefit Pension Plans (Continued)

New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members may transfer to a different STRS Ohio retirement plan during their fifth year of membership. Eligible members who do not make a choice during the reselection period will permanently remain in their current plan.

The DB Plan benefits are established under Chapter 3307 of the Ohio Revised Code. Any member may retire who has (i) five years of service credit and a On June 23, 2008, the School and Educational Solutions Co. entered into a management contract. attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money purchase benefit” calculation. Under the formula benefit the retirement allowance is based on years of credited service and final average salary, which is the average of the members’ three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5% with an additional one-tenth of a percent added to the calculation for every year over 31 years until 100% of the final average salary is reached. For members with 35 or more years of Ohio contributing services, the first 30 years will be calculated at 2.5%. Under the money purchase benefit, members’ lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. The total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance. Benefits are increased annually by 3% of the original base amount.

The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation among various investment choices. Benefits are established under Sections 3307.80 to 3307.89 of the Ohio Revised Code. 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. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the members’ designated beneficiary is entitled to receive the member’s account balance.

**CESAR CHAVEZ COLLEGE PREPARATORY SCHOOL
FRANKLIN COUNTY
NOTES TO THE FINANCIALS
FOR FISCAL YEAR ENDED JUNE 30, 2014**

5. Defined Benefit Pension Plans (Continued)

Combined Plan offers features of the DC Plan and the DB Plan. Member contributions are allocated to investments selected by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Plan members' defined benefit is determined by multiplying 1% of the members' final average salary by the members' years of service credit. The defined benefit portion of the Combined Plan is payable to members on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lumpsum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

For fiscal year ended June 30, 2014, members were required to contribute 11% of their annual covered salary and the School was required to contribute 14%; 13% was the portion used to fund pension obligations. Member and employer contributions were established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 14% for members and 14% for employers provided by Chapter 3307 of the Ohio Revised Code.

The School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2014, 2013 and 2012 were \$85,014, \$22,366, and \$30,102, respectively; which were equal to the required contributions for each year.

6. Post-Employment Benefits

A. School Employee Retirement System

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.

Medicare Part B Plan

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 2014 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50.

**CESAR CHAVEZ COLLEGE PREPARATORY SCHOOL
FRANKLIN COUNTY
NOTES TO THE FINANCIALS
FOR FISCAL YEAR ENDED JUNE 30, 2014**

6. Post-Employment Benefits (Continued)

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 2013, the actuarially required allocation is .76%. The School's contributions for Medicare Part B for the fiscal years ended June 30, 2014, 2013 and 2012 were \$1,144, \$402, and \$753, respectively; which equaled the required contributions each year.

Health Care Plan

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, 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, 2014, the health care allocation is .14%. 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. Statues 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 2014, the minimum compensation level was established at \$20,250. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The School's contributions assigned to health care (including surcharge) for the fiscal years ended 2014, 2013 and 2012, were \$326, \$1,605, and \$2,603, respectively; which were equal to the required contributions for each year.

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**.

**CESAR CHAVEZ COLLEGE PREPARATORY SCHOOL
FRANKLIN COUNTY
NOTES TO THE FINANCIALS
FOR FISCAL YEAR ENDED JUNE 30, 2014**

6. Post-Employment Benefits (Continued)

B. State Teachers Retirement System

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

Funding Policy

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

For 2014, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School's contributions for health care for the fiscal years ended June 30, 2014, 2013 and 2012 were \$6,540, \$1,720, and \$2,316, respectively; which were equal to the required contributions for each year.

7. Restricted Net Position

At June 30, 2014, the School reported restricted net position totaling \$8,888. The nature of the net position restrictions are federal specific program grants.

8. Purchased Services

During the fiscal year ended June 30, 2014, purchased service expenses for services rendered by various vendors were as follows:

Professional and Technical Services	\$ 2,013,245
Travel/Meeting	24,925
Contracted Services (Food Service)	149,832
Total Purchased Services	<u>\$2,188,002</u>

**CESAR CHAVEZ COLLEGE PREPARATORY SCHOOL
FRANKLIN COUNTY
NOTES TO THE FINANCIALS
FOR FISCAL YEAR ENDED JUNE 30, 2014**

9. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2014 was as follows:

	<u>Balance</u> <u>7/1/2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>6/30/2014</u>
Furniture, Fixtures and Equipment	\$31,795	\$ -	\$ -	\$31,795
Less: Accumulated Depreciation:				
Furniture, Fixtures and Equipment	(14,192)	(5,356)	-	(19,548)
Total Accumulated Depreciation	<u>(14,192)</u>	<u>(5,356)</u>	<u>-</u>	<u>(19,548)</u>
Total Capital Assets, Net	<u>\$ 17,603</u>	<u>\$(5,356)</u>	<u>\$ -</u>	<u>\$12,247</u>

10. Management Agreement

On June 23, 2013, the School and Educational Solutions Co. entered into a full-performance management contract. Under this contract, Educational Solutions Co. is obligated to manage and operate the School. 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. In addition to the School, Educational Solutions Co. currently supports two other Ohio community schools. Each of its supported schools are members of Educational Solutions Co., as such term is defined by Ohio Revised Cod Chapter 1702. As members of Educational Solutions Co., the schools, under Educational Solutions Co.'s Code of Regulations, elect a majority of the Board of Directors of Educational Solutions Co. As a result of this relationship, Educational Solutions Co. is "operated, supervised, or controlled by" its supported schools, as such term is defined by Regs. Section 1.509(a)-4(g), and Educational Solutions Co. is a Type I supporting organization. As a result of this relationship, Educational Solutions Co. is responsive to the needs and demands of its supported schools and is an integral part of their operations. Additionally Educational Solutions Co. will assume the obligations of the School under the existing contract.

**CESAR CHAVEZ COLLEGE PREPARATORY SCHOOL
FRANKLIN COUNTY
NOTES TO THE FINANCIALS
FOR FISCAL YEAR ENDED JUNE 30, 2014**

11. Management Company Expenses

For the year ended June 30, 2014 Educational Solutions Co. incurred the following expenses on behalf of the School:

Direct Expenses:	
Salaries and Wages	\$ 478,309
Employees' Retirement and Insurance Benefits	49,377
Professional and Technical Services	82,569
Property Services	78,362
Travel Mileage / Meeting Expense	1,350
Communication	6,528
Utilities	30,996
Other Supplies	56,712
Indirect Expenses:	
Overhead	256,926
Total Expenses	<u>\$ 1,041,129</u>

Educational Solutions charges expenses benefiting more than one school (i.e., overhead) pro rata based on the percentage of FTE students per school in relation to all the schools that Educational Solutions manages.

12. Debt / Related Party

The activity of the School's debt is summarized as follows:

Obligations	Beginning Balance	Debt Proceeds	Principal Payments	Ending Balance	Amount Due in One Year
Educational Solutions (Loan 2)	\$ 42,922	\$ -	\$ 42,922	\$ -	\$ -
Educational Solutions (Loan 3)	35,301	-	35,301	-	-
Total	<u>\$ 78,223</u>	<u>\$ -</u>	<u>\$ 78,223</u>	<u>\$ -</u>	<u>\$ -</u>

June 2012, the School entered into a related party note agreement with Educational Solutions, Inc. The total amount of the loan was set at \$61,722 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. This loan was retired during fiscal year 2014.

**CESAR CHAVEZ COLLEGE PREPARATORY SCHOOL
FRANKLIN COUNTY
NOTES TO THE FINANCIALS
FOR FISCAL YEAR ENDED JUNE 30, 2014**

12. Debt / Related Party (Continued)

June 2013, the School entered into a related party note agreement with Educational Solutions, Inc. The total amount of the loan was set at \$35,301 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. This loan was retired during fiscal year 2014.

13. Advances Payable

During fiscal year 2014, the School received working capital advances from Charter School Capital (CSC) through a revenue purchase agreement in which three months of projected State funding were sold to CSC. As the School receives its monthly State funding, one month of advances are repaid; however, the School may elect to sell an additional month of receivables in exchange for another advance from CSC so that a maximum of three months of receivables are outstanding at any one time. Due to the fact that each month is sold separately, there is not a stated interest rate, but rather an associated “cost of funding”. At June 30, 2014, the total amount of advances outstanding was \$249,500 and the cost of funding expense incurred during the year was \$26,323.

The note activity for the year is reflected as follows:

Balance July 1, 2013	Increase	Decrease	Balance June 30, 2014
\$ -	\$ 770,577	\$ (521,077)	\$ 249,500

14. 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 School, any such disallowed claims will not have a material adverse effect on the financial position of the School at June 30, 2014.

The Ohio Department of Education has determined that an error was made in making the Public Charter School Grant (PCSP) funds available to the School outside its period of eligibility in fiscal year 2012. The Ohio Department of Education has requested the School repay \$30,000.01 received by the School in fiscal year 2012 from the Public Charter School Grant (PCSP). The School has appealed this decision and the outcome has not been determined at this time.

**CESAR CHAVEZ COLLEGE PREPARATORY SCHOOL
FRANKLIN COUNTY
NOTES TO THE FINANCIALS
FOR FISCAL YEAR ENDED JUNE 30, 2014**

14. Contingencies (Continued)

B. State Funding

The Ohio Department of Education (ODE) 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. As a result of the fiscal year 2014 reviews, the School owes \$487 to ODE. This amount has not been reported as an intergovernmental payable on the statement of net position.

15. Deficit

The Academy had a decrease in net position of (\$96,528) and a deficit net position of (\$218,737) at June 30, 2014. Management intends to eliminate these deficits by increasing enrollment.



Julian & Grube, Inc.

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333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

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

Cesar Chavez College Preparatory School
Franklin County
1500 West 3rd Avenue
Suite 125
Columbus, Ohio 43212

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Cesar Chavez College Preparatory School, Franklin County, Ohio, as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Cesar Chavez College Preparatory School's basic financial statements and have issued our report thereon dated February 25, 2015, wherein we noted the Cesar Chavez College Preparatory School experienced a decrease in net position and a net position deficit during the fiscal year ended June 30, 2014.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Cesar Chavez College Preparatory School's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Cesar Chavez College Preparatory School's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Cesar Chavez College Preparatory School's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Board of Directors
Cesar Chavez College Preparatory School

Compliance and Other Matters

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

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Cesar Chavez College Preparatory School's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Cesar Chavez College Preparatory School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Julian & Grube, Inc.
February 25, 2015



Dave Yost • Auditor of State

CESAR CHAVEZ COLLEGE PREPARATORY SCHOOL

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
MAY 7, 2015**