

CESAR CHAVEZ COLLEGE PREPARATORY SCHOOL
FRANKLIN COUNTY, OHIO
AUDITED FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED JUNE 30, 2015



Dave Yost • Auditor of State

Board of Directors
Cesar Chavez College Preparatory School
1500 W. Third Avenue; Suite 125
Columbus, OH 43212

We have reviewed the *Independent Auditor's Report* of the Cesar Chavez College Preparatory School, Franklin County, prepared by Rea & Associates, Inc., for the audit period January 1, 2014 through December 31, 2015. 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

February 3, 2016

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

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December 11, 2015

To the Board of Directors
Cesar Chavez College Preparatory School
Franklin County, Ohio
2400 Mock Road
Columbus, OH 43219

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the Cesar Chavez College Preparatory School, Franklin County, Ohio, (the "School") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School, as of June 30, 2015, and the changes in financial position and the cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As described in Note 3, the School restated the net position balance to account for the implementation of Governmental Accounting Standard Board (GASB) Statement No. 68, "*Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*", and GASB Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*." Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* and the *Schedule of the School's Proportionate Share of the Net Pension Liability*, and *Schedule of the School's Contributions* on pages 4-8, 29, and 30, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2015 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Rea & Associates, Inc.

Dublin, Ohio

**CESAR CHAVEZ COLLEGE PREPARATORY SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(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, 2015. 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, 2015, are as follows:

- Total net position increased by \$334,442.
- Total assets and deferred outflows of resources increased by \$54,477.
- Total liabilities and deferred inflows of resources decreased by \$279,965.
- The School's operating loss was (\$111,317)
- During 2015, the School implemented GASB 68, which requires changes in the manner for which pension expenses and liabilities are reported.

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/deferred outflows of resources, and liabilities/deferred inflows of resources, 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.

Table 1 provides a summary of the School's net position for June 30, 2015, compared to those reported for fiscal year 2014.

**CESAR CHAVEZ COLLEGE PREPARATORY SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(UNAUDITED)**

(Table 1)
Net Position

	<u>2015</u>	<u>Restated 2014</u>
Assets		
Current Assets	\$ 99,760	\$ 72,742
Capital Assets, Net	7,389	12,247
Total Assets	<u>107,149</u>	<u>84,989</u>
Deferred Outflows of Resources		
Pension	138,189	105,872
Total Deferred Outflows of Resources	<u>138,189</u>	<u>105,872</u>
Liabilities		
Current Liabilities	36,325	303,726
Long-Term Liabilities	1,753,450	2,084,459
Total Liabilities	<u>1,789,775</u>	<u>2,388,185</u>
Deferred Inflows of Resources		
Pension	318,445	-
Total Deferred Inflows of Resources	<u>318,445</u>	<u>-</u>
Net Position		
Investment in Capital Assets	7,389	12,247
Restricted	-	8,888
Unrestricted	(1,870,271)	(2,218,459)
Total Net Position	<u>\$ (1,862,882)</u>	<u>\$ (2,197,324)</u>

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

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

**CESAR CHAVEZ COLLEGE PREPARATORY SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(UNAUDITED)**

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

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

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

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

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

As a result of implementing GASB 68, the School is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014, from (\$218,737) to (\$2,197,324).

In order to further understand what makes up the changes in net position for the current year, the following table gives readers further details regarding the results of activities for 2015 and 2014.

Table 2 shows the changes in net position ended June 30, 2015, as compared to changes reported for fiscal year 2014.

**CESAR CHAVEZ COLLEGE PREPARATORY SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(UNAUDITED)**

(Table 2)
Change in Net Position

	2015	2014
Operating Revenues		
Foundation	\$ 1,922,845	\$ 1,721,066
Casino Aid	11,505	7,523
Non-Operating Revenues		
Federal and State	434,394	390,260
Miscellaneous	36,297	8,438
Total Revenues	2,405,041	2,127,287
 Operating Expenses		
Purchased Services	2,040,809	2,188,002
Material and Supplies	-	900
Depreciation	4,858	5,356
Non-Operating Expenses		
Miscellaneous	24,932	29,557
Total Expenses	2,070,599	2,223,815
 Change in Net Position	\$ 334,442	\$ (96,528)

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 functional expenses still include pension expense of \$105,872 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$76,720. Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

Total 2015 program expenses under GASB 68	\$2,045,667
Pension expense under GASB 68	(76,720)
2015 contractually required contribution	121,601
Adjusted 2015 program expenses	2,090,548
Total 2014 program expenses under GASB 27	2,194,258
Decrease in program expenses not related pension	\$ (103,710)

Capital Assets

At the end of fiscal year 2015, the School had \$7,389 invested in capital assets. See Note 9 of the basic financial statements for additional details.

**CESAR CHAVEZ COLLEGE PREPARATORY SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(UNAUDITED)**

Working Capital Advances

Beginning July 2013, the School entered into a receivable purchase agreement with Charter School Capital. Charter School Capital purchases State Aid (Foundation) payment due to the School and, 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 \$592,700 in working capital from Charter School Capital. At June 30, 2015, the School had no outstanding advances. See Note 14 for further information.

Currently Known Facts

There are no currently known facts that would be expected to have a significant impact on the financial condition of the school in the next year.

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.

Budgetary

Unlike other public school located in the State of Ohio, community schools are not required to follow the budgetary provisions set forth in the Ohio Revised Code Chapter 5705 unless specifically provided in the School's contract with its Sponsor. The School does provide an annual budget in addition to five-year forecasts in October and May of each fiscal year according to its Sponsor agreement.

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 PREPARTORY SCHOOL
FRANKLIN COUNTY , OHIO
STATEMENT OF NET POSITION
As of June 30, 2015**

Current Assets	
Cash	\$ 84,560
Intergovernmental Receivable	15,200
Total Current Assets	<u>99,760</u>
Non-Current Assets	
Capital Assets - Net	7,389
Total Non-Current Assets	<u>7,389</u>
Total Assets	<u>107,149</u>
Deferred Outflows of Resources	
Pension	138,189
Total Deferred Outflows of Resources	<u>138,189</u>
Liabilities	
Current Liabilities	
Grants Payable	36,325
Total Current Liabilities	<u>36,325</u>
Long-Term Liabilities	
Due in More Than One Year:	
Net Pension Liability	1,753,450
Total Liabilities	<u>1,789,775</u>
Deferred Inflows of Resources	
Pension	318,445
Total Deferred Inflows of Resources	<u>318,445</u>
Net Position	
Investment in Capital Assets	7,389
Unrestricted	<u>(1,870,271)</u>
Total Net Position	<u>\$ (1,862,882)</u>

See accompanying notes to the basic financial statements

**CESAR CHAVEZ COLLEGE PREPARTORY SCHOOL
FRANKLIN COUNTY, OHIO
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR FISCAL YEAR ENDED JUNE 30, 2015**

Operating Revenues	
Foundation	\$ 1,922,845
Casino	11,505
Total Operating Revenues	<u>1,934,350</u>
Operating Expenses	
Purchased Services	2,040,809
Depreciation	4,858
Total Operating Expenses	<u>2,045,667</u>
Operating Loss	<u>(111,317)</u>
Non-Operating Revenue / (Expenses)	
Federal Grant Revenue	430,941
State Grant Revenue	3,453
Other Revenue	36,297
Other Expenses	(24,932)
Total Non-Operating Revenues/(Expenses)	<u>445,759</u>
Changes in Net Position	334,442
Net Position, Beginning of Year, Restated (See Note 3)	<u>(2,197,324)</u>
Net Position, End of Year	<u>\$ (1,862,882)</u>

See accompanying notes to the basic financial statements

**CESAR CHAVEZ COLLEGE PREPARATORY SCHOOL
FRANKLIN COUNTY, OHIO
STATEMENT OF CASH FLOWS
FOR FISCAL YEAR ENDED JUNE 30, 2015**

INCREASE (DECREASE) IN CASH

Cash Flows from Operating Activities

Cash Received from State of Ohio	\$ 1,934,349
Cash Payments to Suppliers for Goods and Services	<u>(2,052,177)</u>
Net Cash Used for Operating Activities	<u>(117,828)</u>

Cash Flows from Noncapital Financing Activities

Cash Received from State and Federal Grants	396,827
Cash Received from the Sales on Advances	592,700
Cash Received from Short Term Loan	190,236
Cash Paid on Sales on Advances	(842,200)
Cash Received from Miscellaneous Revenues	36,297
Cash Paid on Short Term Loan	(190,236)
Cash Paid on Miscellaneous Expenses	<u>(1,211)</u>
Net Cash Provided by Noncapital Financing Activities	<u>182,413</u>

Net Increase in Cash 64,585

Cash, Beginning of Year 19,975

Cash, End of Year \$ 84,560

Reconciliation of Operating Loss to Net Cash Used for Operating Activities

Operating Loss (111,317)

Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:

Depreciation	4,858
Changes in Assets/Deferred Outflows and Liabilities/Deferred Inflows of Resources:	
(Increase) Decrease in Intergovernmental Receivable	(2,549)
Increase (Decrease) in Grants Payable	36,061
(Increase) Decrease in Deferred Outflows	(32,317)
Increase (Decrease) in Net Position Liability	(331,009)
Increase (Decrease) in Deferred Inflows	<u>318,445</u>
Total Adjustments	<u>(6,511)</u>

Net Cash Used for Operating Activities \$ (117,828)

See accompanying notes to the basic financial statements

**CESAR CHAVEZ COLLEGE PREPARATORY SCHOOL
FRANKLIN COUNTY
NOTES TO THE FINANCIALS
FOR FISCAL YEAR ENDED JUNE 30, 2015**

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 commencing on July 1, 2012, and ending on June 30, 2016. Thereafter, the contract is extended for an additional term of two years from July 1, 2016 to June 30, 2018 unless terminated or non-renewed.

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 Code 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 Academy have been prepared in conformity with generally accepted accounting principles (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.

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.

**CESAR CHAVEZ COLLEGE PREPARATORY SCHOOL
FRANKLIN COUNTY
NOTES TO THE FINANCIALS
FOR FISCAL YEAR ENDED JUNE 30, 2015**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
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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 deferred outflows of resources, and liabilities and deferred inflows of resources are included on the Statement of Net Position. The difference between total assets and deferred outflows of resources, and liabilities and deferred inflows of resources 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 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 a semi-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.

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

**CESAR CHAVEZ COLLEGE PREPARATORY SCHOOL
FRANKLIN COUNTY
NOTES TO THE FINANCIALS
FOR FISCAL YEAR ENDED JUNE 30, 2015**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
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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 \$1,934,350 for fiscal year 2015. Revenues associated with specific education grants from the state and federal governments totaled \$434,394 during fiscal year 2015.

H. Operating and Non-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 purchased services, materials and supplies, and depreciation.

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. Grants Payable

Obligations incurred by unpaid prior to June 30, 2015, are reported as grants payable in the accompanying financial statements. Payables totaled \$36,325 at June 30, 2015.

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.

**CESAR CHAVEZ COLLEGE PREPARATORY SCHOOL
FRANKLIN COUNTY
NOTES TO THE FINANCIALS
FOR FISCAL YEAR ENDED JUNE 30, 2015**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School, deferred outflows of resources are reported on the statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 6.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the statement of net position. See Note 6.

L. Net Position

Net position represents 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 is 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.

The School applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

M. Pensions

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

N. Economic Dependency

The School receives 100% of its operating revenue from the Ohio Department of Education. Due to the significance of this revenue source, the School is considered to be economically dependent on the State of Ohio Department of Education.

3. CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF NET POSITION

For the fiscal year ended June 30, 2015, the School has implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68*.

GASB Statement No. 68 requires recognition of the entire net pension liability and a more comprehensive measure of pension expense for defined benefit pensions and defined contribution pensions provided to

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3. CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF NET POSITION (CONTINUED)

the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements. The implementation of GASB Statement No. 68 resulted in the inclusion of net pension liability and pension expense components on the accrual financial statements. See below for the effect on net position as previously reported.

GASB Statement No. 69 addresses accounting and financial reporting for government combinations (including mergers, acquisitions and transfers of operations) and disposals of government operations. The implementation of GASB Statement No. 69 did not have an effect on the financial statements of the School.

GASB Statement No. 71 amends paragraph 137 of GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. See below for the effect on net position as previously reported. The implementation of this pronouncement had the following effect on net position as reported June 30, 2014:

Net Position June 30, 2014	\$	(218,737)
Deferred Outflows of Resources		105,872
Net Pension Liability		<u>(2,084,459)</u>
Restated Net Position, July 1, 2014	\$	<u>(2,197,324)</u>

4. DEPOSITS

At June 30, 2015, the carrying amount of the School's deposits was \$84,560 and the bank balance was \$84,560. 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.

5. RISK MANAGEMENT

A. Property and Liability

The Management Co. assumed all property and liability risk (Note 10).

B. Worker's Compensation

Educational Solutions Co pays the State Worker's Compensation System a premium for employee injury coverage (Note 10).

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6. DEFINED BENEFIT PENSION PLANS

The School has contracted with Educational Solutions to provide employee services and to pay those employees, as described in Note 10. 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:

Net Pension Liability

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

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

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

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6. DEFINED BENEFIT PENSION PLANS (CONTINUED)

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The School's contractually required contribution to SERS was \$31,037 for fiscal year 2015.

Plan Description - State Teachers Retirement System (STRS)

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

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6. DEFINED BENEFIT PENSION PLANS (CONTINUED)

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

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

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

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The School was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The School's contractually required contribution to STRS was \$90,564 for fiscal year 2015.

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6. DEFINED BENEFIT PENSION PLANS (CONTINUED)

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

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportion of the net pension liability was based on the School's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$ 1,491,344	\$ 262,106	\$ 1,753,450
Proportion of the Net Pension Liability	0.00613130%	0.00517900%	
Pension Expense	\$ 61,425	\$ 15,295	\$ 76,720

At June 30, 2015, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$ 14,357	\$ 2,231	\$ 16,588
School contributions subsequent to the measurement date	<u>90,564</u>	<u>31,037</u>	<u>121,601</u>
Total Deferred Outflows of Resources	<u>\$ 104,921</u>	<u>\$ 33,268</u>	<u>\$ 138,189</u>

Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	<u>\$ 275,904</u>	<u>\$ 42,541</u>	<u>\$ 318,445</u>

\$121,601 reported as deferred outflows of resources related to pension resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

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6. DEFINED BENEFIT PENSION PLANS (CONTINUED)

	STRS	SERS	Total
Fiscal Year Ending June 30:			
2016	\$ (65,387)	\$ (10,078)	\$ (75,465)
2017	(65,387)	(10,078)	(75,465)
2018	(65,387)	(10,078)	(75,465)
2019	(65,386)	(10,076)	(75,462)
	\$ (261,547)	\$ (40,310)	\$ (301,857)

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2014, are presented below:

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

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

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

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6. DEFINED BENEFIT PENSION PLANS (CONTINUED)

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

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

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

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

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
School's proportionate share of the net pension liability	\$ 373,948	\$ 262,106	\$ 168,038

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6. DEFINED BENEFIT PENSION PLANS (CONTINUED)

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

Actuarial assumptions used in the June 30, 2014, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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

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

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2014.

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6. DEFINED BENEFIT PENSION PLANS (CONTINUED)

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School's proportionate share of the net pension liability	\$ 2,135,022	\$ 1,491,344	\$ 947,010

7. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Health Care Plan Description – On behalf of the School, Educational Solutions Co. contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMOs, PPOs, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2015, 0.82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2015, this amount was \$20,450. Statute provides that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge.

The School's contributions for health care (including surcharge) for the fiscal years ended June 30, 2015, 2014, and 2013 were \$2,872, \$326, and \$1,605, respectively. The full amount has been contributed for fiscal years 2015, 2014, and 2013.

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7. POSTEMPLOYMENT BENEFITS (CONTINUED)

B. State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 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. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2015, STRS did not allocate any employer contributions to post-employment health care. The School's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$0, \$6,540, and \$1,720, respectively. The full amount has been contributed for fiscal years 2015, 2014, and 2013.

8. Purchased Services

During the fiscal year ended June 30, 2015, purchased service expenses for services rendered by various vendors were as follows:

Professional and Technical Services	\$ 2,040,809
Total Purchased Services	\$ 2,040,809

Purchased services expenses have been reduced by \$44,881 associated with the net impact of the accruals related to the implementation of GASB No. 68 and No. 71.

9. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2015 was as follows:

	Balance 7/1/2014	Additions	Disposals	Balance 6/30/2015
Furniture, Fixtures and Equipment	\$31,795	\$ -	\$ -	\$31,795
Less: Accumulated Depreciation:				
Furniture, Fixtures and Equipment	(19,548)	(4,858)	-	(24,406)
Total Accumulated Depreciation	(19,548)	(4,858)	-	(24,406)
Total Capital Assets, Net	\$ 12,247	\$(4,858)	\$ -	\$7,389

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

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10. MANAGEMENT AGREEMENT (CONTINUED)

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 Code 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. The total amount paid from the School for the fiscal year ending June 30, 2015 was \$2,040,809 of which \$36,325 is shown as a payable as of June 30, 2015.

11. MANAGEMENT COMPANY EXPENSES

For the year ended June 30, 2015 Educational Solutions Co. incurred the following expenses on behalf of the School:

Direct Expenses:	
Salaries and Wages	\$ 681,901
Employees' Retirement and Insurance Benefits	151,933
Professional and Technical Services	213,845
Property Services	119,437
Travel Mileage / Meeting Expense	2,321
Communication	17,679
Utilities Services	38,150
Contract Craft or Trade Services	161,751
Pupil Transportation	935
Supplies and Materials	66,000
Capital Outlay	26,440
Other Miscellaneous	22,482
Indirect Expenses:	
Overhead	439,171
Total Expenses	<u>\$ 1,942,045</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.

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FOR FISCAL YEAR ENDED JUNE 30, 2015**

12. OPERATING LEASE - LESSEE DISCLOSURE

On behalf of the School, Educational Solutions Co entered into an operating lease with AEP Charter Cesar Chavez, LLC, a Delaware limited liability company for the Academy's facilities located at 2400 Mock Road Columbus, Ohio. The lease commenced April 3, 2015 and extends through April 2, 2035. Beginning on the commence date, the annual base rent for year one shall be \$75,000 payable in monthly installments of \$6,250. Rent for lease months April, May, and June 2015 are included in the lease payments spread over the entire initial term. The first payment for base rent shall be paid on July 15, 2015. The Lease Agreement requires Cesar to meet certain covenants. As of June 30, 2015 Cesar is in compliance with those covenants. Future lease payments are as follows:

Fiscal Year Ended June 30:

2016	\$	75,375
2017		76,883
2018		78,615
2019		80,973
2020		82,782
2021-2025		413,911
2026-2030		413,911
2031-2035		393,215
Total Future Lease Rental Payments	\$	<u>1,615,665</u>

Per the lease agreement, the Academy was granted an option to purchase the premises, which may be exercised only during the six-month period immediately prior to the end of the fifth, tenth, and fifteenth year anniversaries of the commencement date, which equals annual rent for that period divided by 8.5% capitalization rate.

13. 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, 2015.

B. State Funding

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

**CESAR CHAVEZ COLLEGE PREPARATORY SCHOOL
FRANKLIN COUNTY
NOTES TO THE FINANCIALS
FOR FISCAL YEAR ENDED JUNE 30, 2015**

14. ADVANCES PAYABLE

During fiscal year 2015, 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, 2015, the total amount of advances outstanding was \$0 and the cost of funding expense incurred during the year was \$23,721. The note activity for the year is reflected as follows:

Balance June 30, 2014	Increases	Decreases	Balance June 30, 2015
\$ 249,500	\$592,700	\$(842,200)	\$ -

15. SHORT TERM DEBT/RELATED PARTY TRANSACTIONS

During fiscal year 2015, Educational Solutions Company loaned the School \$190,236 for operating expenses. No interest was imposed, however, as of June 30, 2015, the School repaid the loan in full.

Cesar Chavez College Preparatory School
Franklin County, Ohio
Required Supplementary Information
Schedule of the School's Proportionate Share of the Net Pension Liability
Last Two Fiscal Years (1)

	<u>2014</u>	<u>2013</u>
State Teachers Retirement System (STRS)		
School's proportion of the net pension liability (asset)	0.00613130%	0.00613130%
School's proportionate share of the net pension liability (asset)	\$ 1,491,344	\$ 1,776,480
School's covered-employee payroll	\$ 653,954	\$ 172,046
School's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	228.05%	1032.56%
Plan fiduciary net position as a percentage of the total pension liability	74.70%	69.30%
School Employees Retirement System (SERS)		
School's proportion of the net pension liability (asset)	0.00517900%	0.00517900%
School's proportionate share of the net pension liability (asset)	\$ 262,106	\$ 307,979
School's covered-employee payroll	\$ 150,491	\$ 54,263
School's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	174.17%	567.57%
Plan fiduciary net position as a percentage of the total pension liability	71.70%	65.52%

(1) Information prior to 2013 is not available.

Note: The amounts presented for each fiscal year were determined as of the measurement date.

Cesar Chavez College Preparatory School
Franklin County, Ohio
Required Supplementary Information
Schedule of the School's Contributions
Last Seven Fiscal Years (1)

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
State Teachers Retirement System (STRS)							
Contractually Required Contribution	\$ 90,564	\$ 85,014	\$ 22,366	\$ 30,102	\$ 21,937	\$ 13,267	\$ 18,793
Contributions in Relation to the Contractually Required Contribution	<u>(90,564)</u>	<u>(85,014)</u>	<u>(22,366)</u>	<u>(30,102)</u>	<u>(21,937)</u>	<u>(13,267)</u>	<u>(18,793)</u>
Contribution deficiency (excess)	<u>\$ 0</u>						
School's covered-employee payroll	\$ 646,886	\$ 653,954	\$ 172,046	\$ 231,554	\$ 168,746	\$ 102,054	\$ 144,562
Contributions as a percentage of covered-employee payroll	14.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%
School Employees Retirement System (SERS)							
Contractually required contribution	\$ 31,037	\$ 20,858	\$ 7,510	\$ 13,505	\$ 17,165	\$ 4,288	\$ 4,865
Contributions in relation to the contractually required contribution	<u>(31,037)</u>	<u>(20,858)</u>	<u>(7,510)</u>	<u>(13,505)</u>	<u>(17,165)</u>	<u>(4,288)</u>	<u>(4,865)</u>
Contribution deficiency (excess)	<u>\$ 0</u>						
School's covered-employee payroll	\$ 235,486	\$ 150,491	\$ 54,263	\$ 100,409	\$ 136,555	\$ 31,669	\$ 49,441
Contributions as a percentage of covered-employee payroll	13.18%	13.86%	13.84%	13.45%	12.57%	13.54%	9.84%

(1) - Information prior to 2009 is not available.

December 11, 2015

To the Board of Directors
Cesar Chavez College Preparatory School
Franklin County, Ohio
2400 Mock Road
Columbus, OH 43219

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Cesar Chavez College Preparatory School, Franklin County, Ohio (the "School") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated December 11, 2015, in which we noted the School restated their June 30, 2014 net position to account for the implementation of Governmental Accounting Standard Board (GASB) Statement No. 68, "*Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*", and GASB Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*."

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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 deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Rea & Associates, Inc.

Dublin, Ohio



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
FEBRUARY 16, 2016**