

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

AUDITED FINANCIAL STATEMENTS

FOR FISCAL YEAR ENDED JUNE 30, 2019

OHIO AUDITOR OF STATE
KEITH FABER



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Columbus, Ohio 43215
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Board of Directors
Cesar Chavez College Preparatory School
2400 Mock Road
Columbus, Ohio 43219

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 July 1, 2018 through June 30, 2019. 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 cursive script that reads 'Keith Faber'.

Keith Faber
Auditor of State
Columbus, Ohio

February 3, 2020

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

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December 23, 2019

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, 2019, 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.

Opinion

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, 2019, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis, Schedule of the School's Proportionate Share of the Net Pension Liability, Schedule of the School's Contributions - Pension, Schedule of the School's Proportionate Share of the Net OPEB Liability/(Asset), and the Schedule of the School's Contributions - OPEB* as listed in the table of contents 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 23, 2019, 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 the effectiveness of the School's 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
FRANKLIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(UNAUDITED)**

The 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, 2019. 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.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented and is presented in the MD&A.

Financial Highlights

Key financial highlights for the School for the fiscal year ended June 30, 2019, are as follows:

- Total net position decreased by \$324,155.
- Total assets and deferred outflows of resources decreased by \$286,798 from the prior year.
- Total liabilities and deferred inflows of resources increased by \$37,357 from the prior year.
- The School's operating loss was \$1,071,614.
- Net Pension and Other Post Employment Benefit asset and deferred outflows combined for a decrease of \$234,281 while the Net Pension and Other Post employment benefit deferred inflows combined for an increase of \$370,308. Both were the result of calculations related to the change in net pension and OPEB liabilities.

Using this Financial Report

This financial report contains the basic financial statements of the School, as well as the required supplementary information 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 deferred outflows of resources and liabilities and deferred inflows of resources, both financial and capital as well as 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
FRANKLIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(UNAUDITED)**

Table 1 provides a summary of the School's net position as of June 30, 2019, compared to those reported for fiscal year 2018.

(Table 1)
Net Position

	<u>2019</u>	<u>2018</u>
Assets		
Current Assets	\$ 136,250	\$ 176,462
Net OPEB Asset	132,537	-
Capital Assets, Net	23,712	36,017
Total Assets	<u>292,499</u>	<u>212,479</u>
Deferred Outflows of Resources		
Pension/OPEB	1,388,649	1,755,467
Total Deferred Outflows of Resources	<u>1,388,649</u>	<u>1,755,467</u>
Liabilities		
Current Liabilities	363,166	125,366
Long-Term Liabilities	2,812,810	3,383,561
Total Liabilities	<u>3,175,976</u>	<u>3,508,927</u>
Deferred Inflows of Resources		
Pension/OPEB	549,749	179,441
Total Deferred Inflows of Resources	<u>549,749</u>	<u>179,441</u>
Net Position		
Investment in Capital Assets	23,712	36,017
Unrestricted	(2,068,289)	(1,756,439)
Total Net Position	<u>\$ (2,044,577)</u>	<u>\$ (1,720,422)</u>

Cash increased \$2,671 through current year operations. Accounts receivable increased \$6,651 and intergovernmental receivables decreased \$49,534 due to timing of the accruals at year end compared to when payment was made or received. Accounts payable increased \$7,334 while grants payable decreased by \$49,534 due to amounts owed to Educational Solutions Co. under the management agreement described in Note 10. Advances payable increased by \$280,000 through amounts received from Charter School Capital to be repaid through future Foundation receipts. Deferred outflows / inflows of resources and long-term liabilities changed in relation to accruals required under GASB 68 and GASB 75.

**CESAR CHAVEZ COLLEGE PREPARATORY SCHOOL
FRANKLIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(UNAUDITED)**

Table 2 shows the changes in net position for the year ended June 30, 2019, as compared to changes reported for fiscal year 2018.

(Table 2)
Change in Net Position

	<u>2019</u>	<u>2018</u>
Operating Revenues		
Foundation	\$ 2,763,081	\$ 2,660,906
Casino Aid	26,241	24,288
Non-Operating Revenues		
Federal and State	721,070	757,058
Miscellaneous	61,354	528
Total Revenues	<u>3,571,746</u>	<u>3,442,780</u>
Operating Expenses		
Purchased Services	3,848,631	2,639,181
Depreciation	12,305	12,305
Non-Operating Expenses		
Miscellaneous	34,965	720
Total Expenses	<u>3,895,901</u>	<u>2,652,206</u>
Change in Net Position	<u>\$ (324,155)</u>	<u>\$ 790,574</u>
Net Position, Beginning of Year	<u>(1,720,422)</u>	<u>2,514,452</u>
Net Position, End of Year Restated	<u>\$ (2,044,577)</u>	<u>\$ (1,720,422)</u>

Operating expenses increased during the fiscal year due to the application of GASB 68 and 75 accruals.

Capital Assets

At the end of fiscal year 2019, the School had \$23,712 invested in capital assets. See Note 9 of the basic financial statements for additional details.

Net Pension Liability

The net pension liability (NPL) is the largest single liability reported by the School at June 30, 2019, and is reported pursuant to GASB Statement 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27*. In a prior period, the School also adopted GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. 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 OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB and the net OPEB asset.

**CESAR CHAVEZ COLLEGE PREPARATORY SCHOOL
FRANKLIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(UNAUDITED)**

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension/OPEB liability. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB asset/liability to equal the School's proportionate share of each plan's collective:

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

GASB notes that pension and OPEB 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 and other postemployment benefits. GASB noted that the unfunded portion of this 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 these assets/liabilities. 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 Ohio revised Code permits but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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 retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *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. For STRS, the plan's fiduciary net OPEB position was sufficient to cover the plan's total OPEB liability resulting in a net OPEB asset for fiscal year 2019 that is allocated to each school based on its proportionate share. The retirement system is responsible for the administration of the pension and OPEB plans.

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 or the net OPEB liability reported by the retirement boards. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities 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 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 and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, the School's statements include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's change in net pension liability and net OPEB asset/liability, respectively, not accounted for as deferred inflows/outflows.

**CESAR CHAVEZ COLLEGE PREPARATORY SCHOOL
FRANKLIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(UNAUDITED)**

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.

Debt

As of June 30, 2019, the School has advances payable with Charter School Capital to borrow against future foundation payments. See Note 14. Advances Payable is considered a current liability due to the unique nature of the agreement and is reported as such on the financial statements.

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, therefore no budgetary information is presented in the basic financial statements.

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.

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CESAR CHAVEZ COLLEGE PREPARTORY SCHOOL
FRANKLIN COUNTY, OHIO
STATEMENT OF NET POSITION
June 30, 2019

Assets

Cash	\$ 52,586
Prepays	40,908
Accounts Receivable	16,042
Intergovernmental Receivable	<u>26,714</u>
Total Current Assets	<u>136,250</u>

Non-Current Assets

Net OPEB Asset	132,537
Capital Assets - Net	<u>23,712</u>
Total Non-Current Assets	<u>156,249</u>
Total Assets	<u>292,499</u>

Deferred Outflows of Resources

Pension	1,213,406
OPEB	<u>175,243</u>
Total Deferred Outflows of Resources	<u>1,388,649</u>

Current Liabilities

Accounts Payable	56,452
Grants Payable	26,714
Advances Payable	<u>280,000</u>
Total Current Liabilities	<u>363,166</u>

Long-Term Liabilities

Net Pension Liability	2,485,183
Net OPEB Liability	<u>327,627</u>
Total Long-Term Liabilities	<u>2,812,810</u>
Total Liabilities	<u>3,175,976</u>

Deferred Inflows of Resources

Pension	284,248
OPEB	<u>265,501</u>
Total Deferred Inflows of Resources	<u>549,749</u>

Net Position

Investment in Capital Assets	23,712
Unrestricted	<u>(2,068,289)</u>
Total Net Position	<u>\$ (2,044,577)</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, 2019**

Operating Revenues	
Foundation	\$ 2,763,081
Casino	26,241
Total Operating Revenues	<u>2,789,322</u>
Operating Expenses	
Purchased Services	3,848,631
Depreciation	12,305
Total Operating Expenses	<u>3,860,936</u>
Operating Loss	<u>(1,071,614)</u>
Non-Operating Revenue / (Expenses)	
Federal Grant Revenue	712,979
State Grant Revenue	8,091
Other Revenue	61,354
Other Expenses	(34,965)
Total Non-Operating Revenues/(Expenses)	<u>747,459</u>
Change in Net Position	(324,155)
Net Position, Beginning of Year	<u>(1,720,422)</u>
Net Position, End of Year	<u>\$ (2,044,577)</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, 2018**

INCREASE (DECREASE) IN CASH

Cash Flows from Operating Activities

Cash Received from State of Ohio	\$ 2,782,671
Cash Payments to Suppliers for Goods and Services	(3,856,993)
Net Cash Used for Operating Activities	<u>(1,074,322)</u>

Cash Flows from Noncapital Financing Activities

Cash Received from State and Federal Grants	770,604
Cash Received from Advances	1,573,600
Cash Payments on Advances	(1,293,600)
Cash Received from Miscellaneous Revenues	61,354
Cash Paid on Miscellaneous Expenses	(34,965)
Net Cash Provided by Noncapital Financing Activities	<u>1,076,993</u>

Net Increase in Cash 2,671

Cash, Beginning of Year 49,915

Cash, End of Year \$ 52,586

Reconciliation of Operating Loss to Net Cash Used for Operating Activities

Operating Loss \$ (1,071,614)

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

Depreciation	12,305
Changes in Assets and Liabilities, Deferred Inflow/Outflow of Resources:	
(Increase) Decrease in Accounts Receivable	(6,651)
Increase (Decrease) in Accounts Payable	7,334
Increase (Decrease) in Grants Payable	(49,534)
Increase (Decrease) in Deferred Outflows of Resources	366,818
(Increase) Decrease in OPEB Asset	(132,537)
Increase (Decrease) in Deferred Inflows of Resources	370,308
Increase (Decrease) in Net Pension Liability	(274,791)
Increase (Decrease) in Net OPEB Liability	(295,960)
Total Adjustments	<u>(2,708)</u>

Net Cash Used for Operating Activities \$ (1,074,322)

See accompanying notes to the basic financial statements

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**CESAR CHAVEZ COLLEGE PREPARATORY SCHOOL
FRANKLIN COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED JUNE 30, 2019**

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. The contract was extended for additional terms through July 1, 2020.

The School is under contract with Educational Solutions Co. for management of the operations of the School.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School 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, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED JUNE 30, 2019**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, liabilities, and deferred inflows/outflows 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 is 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

Community Schools are statutorily required to adopt a budget by ORC 3314.032(c). However, 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 not require the school to follow the provisions of ORC 5705; therefore no budgetary information is presented in the basic financial statements.

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 acquisition 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.

**CESAR CHAVEZ COLLEGE PREPARATORY SCHOOL
FRANKLIN COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED JUNE 30, 2019**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Intergovernmental Revenues

The School is a participant in the State Foundation and Casino Programs. The Foundation and Casino funding is recognized as operating revenues in the accounting period in which they are 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 and Casino Programs totaled \$2,789,322 for fiscal year 2019. Revenues associated with specific education grants from the state and federal governments totaled \$721,070 during fiscal year 2019.

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. Accounts/Grants Payable

Obligations incurred but unpaid prior to June 30, 2019, are reported as accounts and grants payable in the accompanying financial statements. Payables totaled \$83,166 at June 30, 2019.

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/Deferred Inflows of Resources

In addition to assets, the statements of financial position report a separate section 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/expenditure) until then. The deferred outflows of resources related to pension and OPEB plans are explained in Notes 6 and 7.

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 and OPEB plans are explained in Notes 6 and 7.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Net Position

Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. 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 and Other Post-Employment Benefits (OPEB)

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

N. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2019, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase by the School and an expense is recorded when used. The School has \$40,908 of prepaids as of June 30, 2019, due to prepaid rent expenses.

3. IMPLEMENTATION OF NEW ACCOUNTING PRINCIPLES

For the fiscal year ended June 30, 2019, the School has implemented Governmental Accounting Standards Board (GASB) Statement No. 83, Certain Asset Retirement Obligations and GASB Statement No. 88 Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements.

GASB Statement No. 83 establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The implementation of GASB Statement No. 83 did not have an effect on the financial statements of the School.

GASB Statement No. 88 establishes additional financial statement note disclosure requirements related to debt obligations of governments, including direct borrowings and direct placements. These changes did not have an effect on the financial statements of the School.

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4. DEPOSITS

At June 30, 2018, the carrying amount of the School's deposits was \$52,586 and the bank balance was \$52,586. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of June 30, 2019, the schools deposits were covered by the Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of the School's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, or by the financial institutions participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

5. 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, 2019, 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

Settlement amounts did not exceed coverage amounts in the last three years, nor is there a reduction in coverage from the prior year.

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.

6. 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.

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 Schools' 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

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6. DEFINED BENEFIT PENSION PLANS (continued)

Net Pension Liability (continued)

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 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. Any liability for the contractually required pension contribution outstanding at the end of the year is included in accounts payable.

Plan Description - School Employees Retirement System (SERS)

Plan Description – the School non-teaching employees participate in SERS, a statewide, cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor 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.

Age and service requirements for retirement are as follows:

	Eligible to Retire 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 30 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.

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6. DEFINED BENEFIT PENSION PLANS (continued)

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, 2019, the allocation to pension, death benefits, and Medicare B was 13.5 percent. SERS allocated 0.5 percent of employer contributions to the Health Care Fund for fiscal year 2019.

The School's contractually required contribution to SERS was \$50,723 for fiscal year 2019.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – the Schools' 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.

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. For the DB Plan, from August 1, 2015–July 1, 2017, any member could retire with reduced benefits who had (1) five years of service credit and age 60; (2) 26 years of service credit and age 55; or (3) 30 years of service credit regardless of age. Effective August 1, 2017–July 1, 2019, any member may retire with reduced benefits who has (1) five years of service credit and age 60; (2) 27 years of service credit and age 55; or (3) 30 years of service credit regardless of age. Eligibility changes will continue to be phased in through August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60. Retirement eligibility for reduced benefits will be five years of service credit and age 60, or 30 years of service credit regardless of age.

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. Effective July 1, 2017, employer contributions of 9.53 percent are placed in the investment accounts and the remaining 4.47 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, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying one percent of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50 and termination of employment.

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6. DEFINED BENEFIT PENSION PLANS (continued)

Plan Description - State Teachers Retirement System (STRS) (continued)

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 to 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. For the fiscal year ended June 30, 2019, plan members were required to contribute 14 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 2019 contribution rates were equal to the statutory maximum rates.

The School's contractually required contribution to STRS was \$137,263 for fiscal year 2019.

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

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an independent actuarial valuation as of that date. The School's employer allocation percentage of the net pension liability was based on the employer's share of employer contributions in the pension plan relative to the total employer contributions of all participating employers. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability:			
Current Measurement Date	0.01172710%	0.00824800%	
Prior Measurement Date	0.00981670%	0.00914935%	
Change in Proportionate Share	<u>0.00191040%</u>	<u>-0.00090135%</u>	
Proportionate Share of the Net			
Pension Liability	\$ 671,633	\$ 1,813,550	\$ 2,485,183
Pension Expense	\$ 163,137	\$ 306,942	\$ 470,079

Deferred outflows/inflows of resources represent the effect of changes in the net pension liability due to the difference between projected and actual investment earnings, differences between expected and actual actuarial experience, changes in assumptions and changes in the School's proportion of the collective net pension liability. The deferred outflows and deferred inflows are to be included in pension expense over current and future periods. The difference between projected and actual investment earnings is recognized in pension expense using a straight line method over a five year period beginning in the current year. Deferred outflows and deferred inflows resulting from changes in sources other than differences between projected and actual investment earnings are amortized over the average expected remaining service lives of all members (both active and inactive) using the straight line method. Employer contributions to the

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6. DEFINED BENEFIT PENSION PLANS (continued)

Plan Description - State Teachers Retirement System (STRS) (continued)

pension plan subsequent to the measurement date are also required to be reported as a deferred outflow of resources.

At June 30, 2019, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between Expected and Actual Experience	\$ 36,835	\$ 41,863	\$ 78,698
Changes of Assumptions	15,167	321,395	336,562
Changes in Proportion and Differences between School Contributions and Proportionate Share of Contributions	135,969	474,191	610,160
School Contributions Subsequent to the Measurement Date	50,723	137,263	187,986
Total Deferred Outflows of Resources	<u>\$ 238,694</u>	<u>\$ 974,712</u>	<u>\$ 1,213,406</u>
Deferred Inflows of Resources			
Differences between Expected and Actual Experience	\$ 0	\$ 11,843	\$ 11,843
Net Difference between Projected and Actual Earnings on Pension Plan Investments	18,609	109,975	128,584
Changes in Proportion and Differences between School Contributions and Proportionate Share of Contributions	0	143,821	143,821
Total Deferred Inflows of Resources	<u>\$ 18,609</u>	<u>\$ 265,639</u>	<u>\$ 284,248</u>

\$187,986 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2020	\$ 139,279	\$ 290,678	\$ 429,957
2021	57,832	248,417	306,249
2022	(22,041)	90,022	67,981
2023	(5,708)	(57,307)	(63,015)
	<u>\$ 169,362</u>	<u>\$ 571,810</u>	<u>\$ 741,172</u>

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

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6. DEFINED BENEFIT PENSION PLANS (continued)

Actuarial Assumptions – SERS (continued)

assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment terminations). 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, 2018, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)
COLA or Ad Hoc COLA	2.50 percent, on and after April 1, 2018, COLA's for future retirees will be delayed for three years following commencement

For post-retirement mortality, the table used in evaluating allowances to be paid is the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, with 120 percent of male rates and 110 percent of female rates used. The RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years is used for the period after disability retirement.

The long-term return expectation for the Pension Plan Investments has been determined by 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 an arithmetic weighted average 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 asset allocation, as used in the June 30, 2015 five-year experience study, is summarized as follows:

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6. DEFINED BENEFIT PENSION PLANS (continued)

Actuarial Assumptions – SERS (continued)

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US Equity	22.50	4.75
International Equity	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	<u>100.00 %</u>	

Discount Rate Total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed that employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 27-year amortization period of the unfunded actuarial accrued liability. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.50 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 School's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the School's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
School's Proportionate Share of the Net Pension Liability	\$ 946,045	\$ 671,633	\$ 441,556

Actuarial Assumptions - STRS

The total pension liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Projected Salary Increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Projected Payroll Growth	3.00 percent
Cost-of-Living Adjustments	0.00 percent

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6. DEFINED BENEFIT PENSION PLANS (continued)

Actuarial Assumptions – STRS (continued)

Post-retirement mortality rates are based on RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale

MP-2016; pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

The actuarial assumptions used in the July 1, 2018 valuation, were adopted by the board from the results of an actuarial experience study for July 1, 2011, through June 30, 2016.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate 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	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	<u>100.00 %</u>	

*Target weights will be phased in over a 24-month period concluding on July 1, 2019.

**Ten year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

Discount Rate The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2018. The projection of cash flows used to determine the discount rate assumes that employer and member contributions will be made at statutory contribution rates of 14 percent each. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are 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, 2018. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2018.

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 as of June 30, 2018, calculated using the current period discount rate assumption of 7.45 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 (6.45 percent) or one-percentage-point higher (8.45 percent) than the current assumption:

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6. DEFINED BENEFIT PENSION PLANS (continued)

Actuarial Assumptions – STRS (continued)

	1% Decrease	Current Discount Rate	1% Increase
School's Proportionate Share of the Net Pension Liability	\$ 2,648,451	\$ 1,813,550	\$ 1,106,920

7. DEFINED BENEFIT OPEB PLANS

The net OPEB asset/liability reported on the statement of net position represents an asset or liability to employees for OPEB. OPEB is a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. OPEB 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 OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net OPEB asset/liability represents the School's proportionate share of each OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan's fiduciary net position. The net OPEB asset/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 these estimates 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 OPEB are financed; however, the School does receive the benefit of employees' services in exchange for compensation including OPEB.

GASB 75 assumes the asset/liability is solely that of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees, which pay a portion of the health care costs in the form of a monthly premium. The Ohio Revised Code permits but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB asset/liability. Resulting adjustments to the net OPEB asset/liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net OPEB asset/liability*. Any liability for the contractually-required OPEB contribution outstanding at the end of the year is included in *accounts payable*.

Plan Description - School Employees Retirement System (SERS)

Health Care Plan Description - The School contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing

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7. DEFINED BENEFIT OPEB PLANS (Continued)

Plan Description - School Employees Retirement System (SERS) (continued)

SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. 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. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established 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.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2019, 0.5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2019, this amount was \$21,600. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 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. For fiscal year 2019, the School's surcharge obligation was \$4,419.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School's contractually required contribution to SERS was \$6,298 for fiscal year 2019.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered 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 partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. 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 to offer the Plan and gives the Retirement Board discretionary 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. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2019, STRS did not allocate any employer contributions to post-employment health care.

**CESAR CHAVEZ COLLEGE PREPARATORY SCHOOL
FRANKLIN COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED JUNE 30, 2019**

7. DEFINED BENEFIT OPEB PLANS (Continued)

OPEB Assets/Liabilities, OPEB Expense, and Deferred Outflows/Inflows of Resources Related to OPEB

The net OPEB asset/liability was measured as of June 30, 2018, and the total OPEB asset/liability used to calculate the net OPEB asset/liability was determined by an actuarial valuation as of that date. The School's proportion of the net OPEB asset/liability was based on the School's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net OPEB Liability/(Asset):			
Current Measurement Date	0.01180950%	0.00824800%	
Prior Measurement Date	0.00993440%	0.00914935%	
Change in Proportionate Share	<u>0.00187510%</u>	<u>-0.00090135%</u>	
Proportionate Share of the Net			
OPEB Liability/(Asset)	\$ 327,627	\$ (132,537)	\$ 195,090
OPEB Expense	\$ 36,113	\$ (278,070)	\$ (241,957)

At June 30, 2019, the School reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between Expected and Actual Experience	\$ 5,348	\$ 15,481	\$ 20,829
Changes in Proportion and Differences between School Contributions and Proportionate Share of Contributions	74,345	73,771	148,116
School Contributions Subsequent to the Measurement Date	6,298	0	6,298
Total Deferred Outflows of Resources	<u>\$ 85,991</u>	<u>\$ 89,252</u>	<u>\$ 175,243</u>
Deferred Inflows of Resources			
Differences between Expected and Actual Experience	\$ 0	\$ 7,722	\$ 7,722
Net Difference between Projected and Actual Earnings on OPEB Plan Investments	492	15,140	15,632
Changes of Assumptions	29,435	180,593	210,028
Changes in Proportion and Differences between School Contributions and Proportionate Share of Contributions	0	32,119	32,119
Total Deferred Inflows of Resources	<u>\$ 29,927</u>	<u>\$ 235,574</u>	<u>\$ 265,501</u>

**CESAR CHAVEZ COLLEGE PREPARATORY SCHOOL
FRANKLIN COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED JUNE 30, 2019**

7. DEFINED BENEFIT OPEB PLANS (Continued)

OPEB Assets/Liabilities, OPEB Expense, and Deferred Outflows/Inflows of Resources Related to OPEB (Continued)

\$6,298 reported as deferred outflows of resources related to OPEB resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ending June 30:	SERS	STRS	Total
2020	\$ 12,273	\$ (24,253)	\$ (11,980)
2021	11,148	(24,253)	(13,105)
2022	7,592	(24,251)	(16,659)
2023	7,802	(20,815)	(13,013)
2024	7,768	(19,609)	(11,841)
Thereafter	3,183	(33,141)	(29,958)
	<u>\$ 49,766</u>	<u>\$ (146,322)</u>	<u>\$ (96,556)</u>

Actuarial Assumptions - SERS

The total OPEB liability was determined by an actuarial valuation as of June 30, 2018. The actuarial assumptions used in the valuation are based on results from the most recent actuarial experience study, which covered the five-year period ending June 30, 2015. The experience study report is dated April 2016. The total OPEB liability used the following assumptions and other inputs:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Municipal Bond Index Rate	
Measurement Date	3.62 percent
Prior Measurement Date	3.56 percent
Single Equivalent Interest Rate	
Measurement Date	3.70 percent, net of plan investment expense, including price inflation
Prior Measurement Date	3.63 percent, net of plan investment expense, including price inflation
Health Care Cost Trend Rate	
Medicare	5.375 percent - 4.75 percent
Pre-Medicare	7.25 percent - 4.75 percent

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates. RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years.

The long-term expected rate of return on plan factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a long-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer

**CESAR CHAVEZ COLLEGE PREPARATORY SCHOOL
FRANKLIN COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
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7. DEFINED BENEFIT OPEB PLANS (Continued)

Actuarial Assumptions – SERS (Continued)

timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2015 five-year experience study, are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00 %	0.50 %
US Equity	22.50	4.75
International Equity	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	<u>100.00 %</u>	

Discount Rate The discount rate used to measure the total OPEB liability at June 30, 2018 was 3.70 percent. The discount rate used to measure total OPEB liability prior to June 30, 2018 was 3.63 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the contribution rate of 2.00 percent of projected covered payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2026. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2025 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.62 percent, as of June 30, 2018 (i.e., municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

Sensitivity of the School's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability and what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.70 percent) and higher (4.70 percent) than the current discount rate (3.70 percent). Also shown is what the net OPEB liability would be based on health care cost trend rates that are one percent lower (6.25 percent decreasing to 3.75 percent) and one percent higher (8.25 percent decreasing to 5.75 percent) than the current rate.

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FRANKLIN COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
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7. DEFINED BENEFIT OPEB PLANS (Continued)

Actuarial Assumptions – SERS (Continued)

	1% Decrease	Current Discount Rate	1% Increase
School's Proportionate Share of the Net OPEB Liability	\$ 397,550	\$ 327,627	\$ 272,262
	1% Decrease	Current Trend Rate	1% Increase
School's Proportionate Share of the Net OPEB Liability	\$ 264,335	\$ 327,627	\$ 411,438

Actuarial Assumptions – STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2018, actuarial valuation are presented below:

Inflation	2.50 percent
Projected Salary Increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3.00 percent
Health Care Cost Trend Rates	-5.23 percent to 9.62 percent, initial, 4.00 percent ultimate

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2018, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

Asset Class	Target Allocation*	Long Term Expected Real Rate of Return**
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	<u>100.00 %</u>	

**CESAR CHAVEZ COLLEGE PREPARATORY SCHOOL
FRANKLIN COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED JUNE 30, 2019**

7. DEFINED BENEFIT OPEB PLANS (Continued)

Actuarial Assumptions – STRS (Continued)

*Target weights will be phased in over a 24-month period concluding on July 1, 2019.

**Ten year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

Discount Rate The discount rate used to measure the total OPEB liability was 7.45 percent as of June 30, 2018. The projection of cash flows used to determine the discount rate assumed STRS continues to allocate no employer contributions to the health care fund. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2018. Therefore, the long-term expected rate of return on health care plan investments of 7.45 percent was applied to all periods of projected benefit payments to determine the total OPEB liability as of June 30, 2018.

Sensitivity of the School's Proportionate Share of the Net OPEB Asset/Liability to Changes in the Discount and Health Care Cost Trend Rate The following table represents the net OPEB asset/liability as of June 30, 2018, calculated using the current period discount rate assumption of 7.45 percent, as well as what the net OPEB asset/liability would be if it were calculated using a discount rate that is one percentage point lower (6.45 percent) or one percentage point higher (8.45 percent) than the current assumption. Also shown is the net OPEB liability as of June 30, 2018, calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease	Current Discount Rate	1% Increase
School's Proportionate Share of the Net OPEB Liability/(Asset)	\$ (113,597)	\$ (132,537)	\$ (148,455)
	1% Decrease	Current Trend Rate	1% Increase
School's Proportionate Share of the Net OPEB Liability/(Asset)	\$ (147,557)	\$ (132,537)	\$ (117,283)

8. PURCHASED SERVICES

During the fiscal year ended June 30, 2019, purchased service expenses for services rendered by various vendors were as follows:

Professional and Technical Services	\$ 3,848,631
Total Purchased Services	\$ 3,848,631

Purchased services expense has decreased by \$33,838 adjusted by the net impact of the accruals related to pension and OPEB.

**CESAR CHAVEZ COLLEGE PREPARATORY SCHOOL
FRANKLIN COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED JUNE 30, 2019**

9. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2019, was as follows:

	Balance 7/1/2018	Additions	Disposals	Balance 6/30/2019
Furniture, Fixtures and Equipment	\$ 92,367	\$ -	\$ -	\$ 92,367
Less: Accumulated Depreciation:				
Furniture, Fixtures and Equipment	(56,350)	(12,305)	-	(68,655)
Total Accumulated Depreciation	(56,350)	(12,305)	-	(68,655)
Total Capital Assets, Net	\$36,017	(12,305)	\$ -	\$23,712

10. MANAGEMENT AGREEMENT

On July 1, 2012, the School and Educational Solutions Co. (“ESC”) entered into a full-performance management contract. Under this contract, ESC is obligated to manage and operate the School. ESC 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, ESC currently supports two other Ohio community schools. Each of its supported schools are members of ESC, as such term is defined by Ohio Revised Code Chapter 1702.

As members of ESC, the schools, under ESC’s Code of Regulations, elect a majority of the Board of Directors of ESC. As a result of this relationship, ESC is “operated, supervised, or controlled by” its supported schools, as such term is defined by Regs. Section 1.509(a)-4(g), and ESC is a Type I supporting organization. As a result of this relationship, ESC is responsive to the needs and demands of its supported schools and is an integral part of their operations. Additionally ESC will assume the obligations of the School under the existing contract.

11. MANAGEMENT COMPANY EXPENSES

For the year ended June 30, 2019, ESC incurred the following expenses on behalf of the School:

**CESAR CHAVEZ COLLEGE PREPARATORY SCHOOL
FRANKLIN COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED JUNE 30, 2019**

11. MANAGEMENT COMPANY EXPENSES (Continued)

Cesar Chavez College Preparatory School	Regular Instruction (1100 Function codes)	Special Instruction (1200 Function codes)	Support Services (2000 Function Codes)	Non-Instructional (3000 through 7000 Function Codes)	Total
<i>Direct expenses:</i>					
Salaries & wages (100 object codes)	\$ 826,904	\$ 10,625	\$ 165,664	\$ -	\$ 1,003,193
Employees' benefits (200 object codes)	192,677	-	43,415	-	236,092
Professional & technical services (410 object codes)	149,683	42,662	467,562	1,667	661,574
Property services (420 object codes)	-	-	131,255	-	131,255
Utilities (450 object codes)	-	-	48,488	-	48,488
Contracted craft or trade services (460 object codes)	-	-	-	226,407	226,407
Transportation (480 object codes)	-	-	2,433	-	2,433
Other purchased services (490 object codes)	-	-	3,875	-	3,875
Supplies (500 object codes)	37,440	-	6,984	25	44,449
Other direct costs (All other object codes)	753	-	47,449	-	48,202
Overhead	106,759	-	839,708	4,798	951,265
Total expenses	\$ 1,314,216	\$ 53,287	\$ 1,756,833	\$ 232,897	\$ 3,357,233

ESC 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 ESC manages.

12. OPERATING LEASE - LESSEE DISCLOSURE

On behalf of the School, ESC entered into an operating lease with AEP Charter Cesar Chavez, LLC, a Delaware limited liability company for the School'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 three shall be \$86,609 payable in monthly installments of \$7,378. The Lease Agreement requires the School to meet certain covenants. As of June 30, 2019, the School is in compliance with those covenants. Future lease payments are as follows:

2020	\$ 89,200
2021	91,876
2022	93,928
2023	93,928
2024	93,928
2025-2029	469,639
2030-2034	469,639
2035	70,446
	\$ 1,472,584

Per the lease agreement, the School 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.

**CESAR CHAVEZ COLLEGE PREPARATORY SCHOOL
FRANKLIN COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED JUNE 30, 2019**

13. CONTINGENCIES

A. Grants

The School received financial assistance from Federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the School at June 30, 2019, if applicable, cannot be determined at this time.

B. State Funding

School foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. However, there is an important nexus between attendance and enrollment for Foundation funding purposes. Community schools must provide documentation that clearly demonstrates students have participated in learning opportunities. The Ohio Department of Education (ODE) is legislatively required to adjust / reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end.

Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE did not perform such a review on the School for fiscal year 2019.

As of the date of this report, all ODE adjustments have been completed.

In addition, the School's contracts with their Sponsor and Management Company require payment based on revenues received from the State. As discussed above, all ODE adjustments through fiscal year 2019 have been completed. A reconciliation between payments previously made and the FTE adjustments has taken place with these contracts.

14. ADVANCES PAYABLE

During fiscal year 2019, the School received working capital advances from Charter School Capital. In July 2018, the School entered into an agreement with Charter School Capital to borrow against its future Foundation payments. The amount borrowed and repaid was \$1,573,600 and \$1,293,600, respectively, with a balance due of \$280,000 at June 30, 2019. The maximum amount that can be borrowed is \$1,000,000 per the agreement. The terms of the loan specify that amounts borrowed are to be repaid over the course of the next two months, therefore the entire amount is due within one year. The School paid financing fees of \$34,619 during fiscal year 2019.

	Principal Outstanding 7/01/2018	Additions	Reductions	Principal Outstanding 6/30/2019
Charter School Capital	-	1,573,600	1,293,600	280,000

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
School Employees Retirement System (SERS)						
School's Proportion of the Net Pension Liability	0.01172710%	0.00981670%	0.00783000%	0.00645570%	0.00517900%	0.00517900%
School's Proportionate Share of the Net Pension Liability	\$ 671,633	\$ 586,526	\$ 573,084	\$ 368,368	\$ 262,106	\$ 307,979
School's Covered Payroll	\$ 377,407	\$ 315,121	\$ 217,943	\$ 235,486	\$ 150,491	\$ 54,263
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	177.96%	186.13%	262.95%	156.43%	174.17%	567.57%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.36%	69.50%	62.98%	69.16%	71.70%	65.52%
State Teachers Retirement System (STRS)						
School's Proportion of the Net Pension Liability	0.00824600%	0.00914935%	0.00721819%	0.00597916%	0.00613130%	0.00613130%
School's Proportionate Share of the Net Pension Liability	\$ 1,813,550	\$ 2,173,448	\$ 2,416,146	\$ 1,652,465	\$ 1,491,344	\$ 1,776,480
School's Covered Payroll	\$ 937,657	\$ 1,005,857	\$ 657,686	\$ 646,886	\$ 653,954	\$ 172,046
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	193.41%	216.08%	367.37%	255.45%	228.05%	1032.56%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.31%	75.30%	66.80%	72.10%	74.70%	69.30%

(1) Information prior to 2014 is not available.

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

See accompanying notes to the required supplementary information.

Cesar Chavez College Preparatory School
Franklin County, Ohio
Required Supplementary Information
Schedule of the School's Contributions - Pension
Last Ten Fiscal Years

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
School Employees Retirement System (SERS)										
Contractually Required Contribution	\$ 50,723	\$ 50,950	\$ 44,117	\$ 30,512	\$ 31,037	\$ 20,858	\$ 7,510	\$ 13,505	\$ 17,165	\$ 4,288
Contributions in Relation to the Contractually Required Contribution	(50,723)	(50,950)	(44,117)	(30,512)	(31,037)	(20,858)	(7,510)	(13,505)	(17,165)	(4,288)
Contribution Deficiency (Excess)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
School's Covered Payroll	\$ 375,726	\$ 377,407	\$ 315,121	\$ 217,943	\$ 235,486	\$ 150,491	\$ 54,263	\$ 100,409	\$ 136,555	\$ 31,669
Pension Contributions as a Percentage of Covered Payroll	13.50%	13.50%	14.00%	14.00%	13.18%	13.86%	13.84%	13.45%	12.57%	13.54%
State Teachers Retirement System (STRS)										
Contractually Required Contribution	\$ 137,263	\$ 131,272	\$ 140,820	\$ 92,076	\$ 90,564	\$ 85,014	\$ 22,366	\$ 30,102	\$ 21,937	\$ 13,267
Contributions in Relation to the Contractually Required Contribution	(137,263)	(131,272)	(140,820)	(92,076)	(90,564)	(85,014)	(22,366)	(30,102)	(21,937)	(13,267)
Contribution Deficiency (Excess)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
School's Covered Payroll	\$ 980,450	\$ 937,657	\$ 1,005,857	\$ 657,686	\$ 646,886	\$ 653,954	\$ 172,046	\$ 231,554	\$ 168,746	\$ 102,054
Pension Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	14.00%	14.00%	13.00%	13.00%	13.00%	13.00%	13.00%

See accompanying notes to the required supplementary information.

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<i>School Employees Retirement System (SERS)</i>			
School's Proportion of the Net OPEB Liability	0.01180950%	0.00993440%	0.00789899%
School's Proportionate Share of the Net OPEB Liability	\$ 327,627	\$ 266,613	\$ 225,151
School's Covered Payroll	\$ 377,407	\$ 315,121	\$ 217,943
School's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	86.81%	84.61%	103.31%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	13.57%	12.46%	11.49%
<i>State Teachers Retirement System (STRS)</i>			
School's Proportion of the Net OPEB Liability/(Asset)	0.00824800%	0.00914935%	0.00721819%
School's Proportionate Share of the Net OPEB Liability/(Asset)	\$ (132,537)	\$ 356,974	\$ 386,031
School's Covered Payroll	\$ 937,657	\$ 1,005,857	\$ 657,686
School's Proportionate Share of the Net OPEB Liability/(Asset) as a Percentage of its Covered Payroll	-14.13%	35.49%	58.70%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability/(Asset)	176.00%	47.10%	37.30%

(1) Information prior to 2017 is not available.

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

See accompanying notes to the required supplementary information.

Cesar Chavez College Preparatory School
Franklin County, Ohio
Required Supplementary Information
Schedule of the School's Contributions - OPEB
Last Ten Fiscal Years

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
School Employees Retirement System (SERS)										
Contractually Required Contribution (1)	\$ 6,298	\$ 7,878	\$ 5,288	\$ 3,843	\$ 2,872	\$ 326	\$ 1,605	\$ 2,603	\$ 1,952	\$ 487
Contributions in Relation to the Contractually Required Contribution	(6,298)	(7,878)	(5,288)	(3,843)	(2,872)	(326)	(1,605)	(2,603)	(1,952)	(487)
Contribution Deficiency (Excess)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
School's Covered Payroll	\$ 375,728	\$ 377,407	\$ 315,121	\$ 217,943	\$ 235,486	\$ 150,491	\$ 54,263	\$ 100,409	\$ 136,555	\$ 31,669
OPEB Contributions as a Percentage of Covered Payroll (1)	1.68%	2.09%	1.68%	1.76%	1.22%	0.22%	2.96%	2.59%	1.43%	1.54%
State Teachers Retirement System (STRS)										
Contractually Required Contribution	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 6,540	\$ 1,720	\$ 2,316	\$ 1,687	\$ 1,021
Contributions in Relation to the Contractually Required Contribution	0	0	0	0	0	(6,540)	(1,720)	(2,316)	(1,687)	(1,021)
Contribution Deficiency (Excess)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
School's Covered Payroll	\$ 980,450	\$ 937,657	\$ 1,005,857	\$ 657,686	\$ 646,886	\$ 653,954	\$ 172,046	\$ 231,554	\$ 168,746	\$ 102,054
OPEB Contributions as a Percentage of Covered Payroll	0.00%	0.00%	0.00%	0.00%	0.00%	1.00%	1.00%	1.00%	1.00%	1.00%

(1) Includes surcharge

See accompanying notes to the required supplementary information.

**Cesar Chavez College Preparatory Academy
Franklin County, Ohio**
*Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2019*

Note 1 - Net Pension Liability

Changes in Assumptions - SERS

For fiscal year 2017, the SERS Board adopted the following assumption changes:

- Assumed rate of inflation was reduced from 3.25 percent to 3.00 percent
- Payroll Growth Assumption was reduced from 4.00 percent to 3.50 percent
- Assumed real wage growth was reduced from 0.75 percent to 0.50 percent
- Rates of withdrawal, retirement and disability were updated to reflect recent experience.
- Mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females.
- Mortality among service retired members, and beneficiaries was updated to RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates, and 110 percent of female rates.
- Mortality among disabled members was updated to RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

Changes in Benefit Terms - SERS

For fiscal year 2018, the cost-of-living adjustment was changed from a fixed 3.00 percent to a cost-of-living adjustment that is indexed to CPI-W not greater than 2.50 percent with a floor of zero percent beginning January 1, 2018. In addition, with the authority granted the Board under HB 49, the Board has enacted a three-year COLA suspension for benefit recipients in calendar years 2018, 2019 and 2020.

Changes in Assumptions – STRS

For fiscal year 2018, the Retirement Board approved several changes to the actuarial assumptions in 2017. The long term expected rate of return was reduced from 7.75 percent to 7.45 percent, the inflation assumption was lowered from 2.75 percent to 2.50 percent, the payroll growth assumption was lowered to 3.00 percent, and total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25 percent due to lower inflation. The healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016. Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

Changes in Benefit Terms - STRS

For fiscal year 2018, the cost-of-living adjustment (COLA) was reduced to zero.

Note 2 - Net OPEB Liability/(Asset)

Changes in Assumptions – SERS

Amounts reported for fiscal year 2019 incorporate changes in key methods and assumptions used in calculating the total OPEB liability. The Municipal Bond Index Rate increased from 3.56 percent to 3.62 percent. Single Equivalent Interest Rate, net of plan investment expense, including price inflation, increased from 3.63 percent to 3.70 percent. The health care cost trend assumptions changed as follows:

Cesar Chavez College Preparatory Academy
Franklin County, Ohio
Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2019

Pre-Medicare

Fiscal year 2018	7.50 percent initially, decreasing to 4.00 percent
Fiscal year 2019	7.25 percent initially, decreasing to 4.75 percent

Medicare

Fiscal year 2018	5.50 percent initially, decreasing to 5.00 percent
Fiscal year 2019	5.375 percent initially, decreasing to 4.75 percent

Amounts reported for fiscal year 2018 incorporate changes in key methods and assumptions used in calculating the total OPEB liability. The Municipal Bond Index Rate increased from 2.92 percent to 3.56 percent. Single Equivalent Interest Rate, net of plan investment expense, including price inflation, increased from 2.98 percent to 3.63 percent.

Changes in Benefit Terms - SERS

There have been no changes to the benefit provisions.

Changes in Assumptions – STRS

For fiscal year 2019, the discount rate was increased from the blended rate of 4.13 percent to the long-term expected rate of return of 7.45 percent. Valuation year per capita health care costs were updated. Health care cost trend rates ranged from 6.00 percent to 11 percent initially and a 4.50 percent ultimate rate for fiscal year 2018 and changed for fiscal year 2019 to a range of -5.20 percent to 9.60 percent, initially and a 4.00 ultimate rate.

For fiscal year 2018, the blended discount rate was increased from 3.26 percent to 4.13 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Changes in Benefit Terms – STRS

For fiscal year 2019, the subsidy multiplier for non-Medicare benefit recipients was increased from 1.9 percent to 1.944 percent per year of service effective January 1, 2019. The non-Medicare frozen subsidy base premium was increased effective January 1, 2019 and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 1, 2020.

For fiscal year 2018, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. This was subsequently extended, see above paragraph.

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December 23, 2019

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, 2019, 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 23, 2019.

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.

Hea & Associates, Inc.

Dublin, Ohio

OHIO AUDITOR OF STATE KEITH FABER



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 13, 2020**