



**EAST END COMMUNITY HERITAGE SCHOOL  
HAMILTON COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2001**



**JIM PETRO**  
**AUDITOR OF STATE**  

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**STATE OF OHIO**



**EAST END COMMUNITY HERITAGE SCHOOL  
HAMILTON COUNTY**

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**REPORT OF INDEPENDENT ACCOUNTANTS**

East End Community Heritage School  
Hamilton County  
2423 Eastern Avenue  
Cincinnati, Ohio 45209

To the Board of Trustees:

We have audited the accompanying financial statements of the East End Community Heritage School, Hamilton County, Ohio (the Community School), as of and for the year ended June 30, 2001, as listed in the table of contents. These financial statements are the responsibility of the Community School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of East End Community Heritage School, Hamilton County, as of June 30, 2001, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Community School will continue as a going concern. The District has suffered a \$202,982 net loss from operations and has an accumulated deficit at June 30, 2001 of \$189,418 that raised substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 12. The financial statements do not include any adjustments that might result from the outcome of the uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 9, 2002, on our consideration of the Community School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a long horizontal stroke extending to the right.

**Jim Petro**  
Auditor of State

April 9, 2002

**EAST END COMMUNITY HERITAGE SCHOOL  
HAMILTON COUNTY**

**BALANCE SHEET  
AS OF JUNE 30, 2001**

**Assets**

Current Assets

Accounts Receivable	\$24,519
Intergovernmental Receivable	74,363
Total Assets	<u><u>\$98,882</u></u>

**Liabilities and Fund Equity**

Current Liabilities

Negative cash balance implicitly financed	\$1,598
Accounts Payable	55,915
Intergovernmental Payable	66,395
Lease Payable	38,929
Contract Payable	5,617
Accrued Wages & Benefits	108,164
Compensated Absences Payable	4,832
Loan Payable	4,850
Note Payable to Board Officer	<u>2,000</u>
Total Current Liabilities	288,300

Fund Equity

Accumulated Deficit	<u>(189,418)</u>
Total Liabilities and Fund Equity	<u><u>\$98,882</u></u>

The notes to the financial statements are an integral part of this statement.

**EAST END COMMUNITY HERITAGE SCHOOL  
HAMILTON COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN  
RETAINED EARNINGS/ACCUMULATED DEFICIT  
FOR THE YEAR ENDED JUNE 30, 2001**

**Operating Revenues**

State Foundation Payments	\$799,956
Charges for Services	296,257
Other Operating Revenues	5,344
Total Operating Revenues	<u>1,101,557</u>

**Operating Expenses**

Salaries	733,470
Fringe benefits	287,053
Purchased services	281,105
Supplies and materials	79,534
Other	50,395
Total Operating Expenses	<u>1,431,557</u>

Operating Loss (330,000)

**Non-operating Revenues**

Contributions	7,220
State Grant	7,000
Federal Grant	112,798
Total Non-operating Revenues	<u>127,018</u>

Net Loss (202,982)

Retained earnings at beginning of year	<u>13,564</u>
Accumulated Deficit at end of year	<u><u>(\$189,418)</u></u>

The notes to the financial statements are an integral part of this statement.



**EAST END COMMUNITY HERITAGE SCHOOL  
HAMILTON COUNTY**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2001**

**Increase (Decrease) In Cash And Cash Equivalents**

**Cash Flows From Operating Activities**

Cash from State of Ohio	\$781,712
Cash from charges for services	271,738
Cash from other operating revenue	5,344
Cash payments to supplies for goods and services	(310,573)
Cash payments to employees for services	(620,472)
Payments to employee benefits	(220,658)
Net cash used for operating activities	(92,909)

**Cash Flows From Noncapital Financing Activities**

Negative cash implicitly financed	1,598
Federal and state grants	63,677
Other local revenue	7,220
Net cash provided by noncapital financing activities	72,495

**Cash Flows From Capital And Related Financing Activities**

Debt proceeds	9,850
Loan payments	(3,000)
Net cash used by capital and related financing activities	6,850

Net decrease in cash	(13,564)
Cash at beginning of year	13,564
Cash at end of year	\$0

**Reconciliation Of Operating Income To Net Cash Provided By Operating Activities**

Operating Loss	(330,000)
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**Adjustments To Reconcile Operating Loss To Net Cash Used For Operating Activities**

Changes in assets and liabilities:	
(Increase) in Intergovernmental receivable	(18,243)
(Increase) in Accounts receivable	(24,519)
Increase in Accounts payable	55,915
Increase in Intergovernmental payable	66,395
Increase in Lease payable	38,930
Increase in Contract payable	5,617
Increase in Accrued wages and benefits	108,164
Increase in Compensated absences payable	4,832
Total adjustments	237,091
Net cash used by operating activities	(\$92,909)

The notes to the financial statements are an integral part of this statement.

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**EAST END COMMUNITY HERITAGE SCHOOL  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001**

**1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY**

East End Community Heritage School (the School) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students by utilizing an approach to education involving the community. The School, which is part of the State's education program, is independent of any school district and is nonsectarian 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 contract with the Cincinnati Public School District (the Sponsor) for a period of three years commencing July 1, 2000. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The School operates under the direction of an eleven member Board of Trustees of which the majority must be community residents. The 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. The Board of Trustees controls the School's one instructional/support facility staffed by 1 non-certificated instructional aide and 13 certificated full time teaching personnel who provided services to a minimum of 146 students during fiscal year 2001.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of East End Community Heritage 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. The School also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the School's accounting policies are described below.

**A. Basis Of Presentation**

Enterprise Accounting

The School uses enterprise accounting to track and report on its financial activities. 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) 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.

**EAST END COMMUNITY HERITAGE SCHOOL  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Measurement Focus and Basis of Accounting**

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

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

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

**C. Budgetary Process**

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor does prescribe a budgetary process for the School, requiring the provision of an estimated school budget for each year of the period of the contract. In addition, the School provides quarterly financial reports to its Sponsor.

**D. Cash**

All monies received by the School are accounted for by the School's fiscal agent, Stephanie Millard, CPA. Monies for all funds of the School are maintained in two bank accounts in the School's name. The total cash for the School is presented as "cash" on the accompanying balance sheet. Please see Note 12 for an explanation of management's plans regarding the negative cash balance and accumulated deficit reduction.

**E. Fixed Assets**

No fixed assets were purchased during the year that warranted capitalization and depreciation. The School maintains a capitalization threshold of one thousand dollars. The School does not possess any infrastructure.

The costs 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. The school building is leased, and therefore is not listed as property owned.

**EAST END COMMUNITY HERITAGE SCHOOL  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**F. Intergovernmental Revenues**

The School currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid (DPIA) Program, and the State Special Education Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when used is first permitted, matching requirements, in which the School must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

The School also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the school was awarded \$50,000 to offset startup costs of the School. Revenue received from this program is recognized as non-operating revenue in the accompanying financial statements.

**G. Compensated Absences**

Sick pay and personal leave benefits are accrued as a liability at year end if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School's termination policy. The School records a liability for accumulated unused sick leave for classified employees after the first year of current service with the School and for certified employees and administrators after the first year of service.

The entire amount of compensated absences is reported as a liability.

**EAST END COMMUNITY HERITAGE SCHOOL  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**3. ACCOUNTABILITY AND COMPLIANCE**

**A. Retained Earnings**

At July 1, 2000, the School had a beginning balance of \$13,564. This comprised of the following:

Federal Charter Grant	\$50,000
Expenses in May and June 2000	<u>(36,436)</u>
Balance at June 30, 2000	<u>\$13,564</u>

**B. Retained Earnings Deficit**

As further described in Note 12, the accumulated deficit is the result of accumulated losses. The School is analyzing operations to determine appropriate steps to alleviate the deficit.

**4. CASH AND DEPOSITS**

At June 30, 2001, the School had a cash deficit of \$1,598 which is reported as cash in the accompanying financial statements. The bank balance of the School's deposits was \$8,926 which is covered through federal depository insurance (FDIC). Please see Note 12 for an explanation of management's plans regarding the accumulated deficit.

**5. RECEIVABLES**

Receivables at June 30, 2001, consisted of intergovernmental (federal grants, state foundation, and City of Cincinnati) receivables. All intergovernmental receivables are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

**6. RISK MANAGEMENT**

**A. Property and Liability**

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2001, the School contracted with Hartford Insurance Company for property and general liability insurance. There is a \$500 deductible with a one hundred percent blanket, all risk policy.

Professional liability is also protected by Hartford Insurance Company with a \$1,000,000 single occurrence limit and \$2,000,000 aggregate and no deductible.

**B. Workers' Compensation**

The School pays the State Worker's Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

**EAST END COMMUNITY HERITAGE SCHOOL  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**7. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The School contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. That report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634 or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the School is required to contribute 14 percent; for fiscal year 2001, 5.5 percent was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by SERS's Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The School's required contribution for pension obligations to SERS for the fiscal year ended June 30, 2001 was \$27,705 and 39.36 percent has been contributed for fiscal year 2001. \$16,800 representing the unpaid contribution for fiscal year 2001, is recorded as a liability.

**B. State Teachers Retirement System**

The School contributes to the State Teachers Retirement System of Ohio (STRS), a cost sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and the School is required to contribute 14 percent; 6 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School's required contribution for pension obligations to STRS for the fiscal year ended June 30, 2001 was \$74,537 and 100.00 percent has been contributed for fiscal year 2001.

**8. POST EMPLOYMENT BENEFITS**

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

**EAST END COMMUNITY HERITAGE SCHOOL  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**8. POST EMPLOYMENT BENEFITS (Continued)**

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. The STRS Board currently allocates employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$42,592 during the 2001 fiscal year.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 6.3 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2001, the minimum pay has been established at \$12,400. For the School, the amount to fund health care benefits, including surcharge, equaled \$13,414 during the 2001 fiscal year.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2000 (the latest information available), were \$140,696,340 and the target level was \$211 million. At June 30, 2000, SERS had net assets available for payment of health care benefits of \$252.3 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**9. OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave components are derived from negotiated agreements, the human resources policy manual, and State laws. Classified employees earn five to ten days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers, administrators and classified employees earn sick leave at the rate of ten days per year. Sick leave may be sold back to the school at a rate of 50% at the end of each fiscal year.

**B. Insurance Benefits**

The School District provides life insurance to all employees through a private carrier. Coverage in the amount of \$25,000 is provided for all certified and non-certified employees.

**C. Employee Medical, Dental, and Vision Benefits**

The School has contracted with a private carrier to provide employee medical/surgical, dental, and vision benefits. The School pays 100% of the monthly premium.



**EAST END COMMUNITY HERITAGE SCHOOL  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**10. STATE SCHOOL FUNDING DECISION**

On September 6, 2001 the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to the school districts as a result of this change must be retroactive to July 1, 2001, although a time line for the distribution is not specified.
- Fully funding parity aid no later than the beginning of the fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of April 9, 2002, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such reconsideration.

As of the date of these financial statements, the School District is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.

**11. CONTINGENCIES**

**A. Grants**

The School received financial assistance from federal and state agencies in the form of grants. The disbursement 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, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2001.

**B. Litigation**

A suit was filed in Franklin County Commons Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the State Constitution and State laws. The effect of this suit, if any, on the School is not presently determinable.

**EAST END COMMUNITY HERITAGE SCHOOL  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**11. CONTINGENCIES (Continued)**

**C. State Funding**

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The fiscal year end 2001 review conducted by the Ohio Department of Education resulted in an adjustment to state funding in the amount of \$18,243, which is reflected as a receivable in the financial statements.

**12. MANAGEMENT'S PLANS REGARDING ACCUMULATED DEFICIT**

East End Community Heritage School accumulated a deficit of \$189,418 for the year ended June 30, 2001, and is also delinquent in some payments to vendors due to an initial over-estimation of special-needs children to be served by the school, and due to the timing of cash flows. Management plans to eliminate the deficit and cash flow shortages with the following actions:

- The School qualified for the Federal Charter School Grant Program through the Ohio Department of Education. The School was awarded \$250,000 as of August 31, 2001 which may be obligated until September 30, 2001, to be used for planning, payroll, and other allowable grant costs.
- The School has also implemented certain cost-cutting measures in its fiscal year 2002 budget, primarily in payroll reductions. These measures should result in cost reductions of \$77,914.

**13. OPERATING LEASE**

The School leases a building from the Cincinnati Public School District. A lease was signed for one year beginning July 1, 2000. The lease payments shall be \$6,120 a month payable in ten monthly installments totaling \$61,200 a year. The School paid \$30,280 during 2001, with a payable of \$36,720. Either party may request negotiations begin by February 1, 2001 for a new lease term. The School also leased office space in a building adjacent to the school for \$200 a month beginning March 1, 2001 and ending August 31, 2001. The School paid \$800 during 2001, with a payable of \$400.

**14. RELATED PARTY TRANSACTIONS**

Legal services were provided by a board member without charge to the Community School. The Board Secretary loaned \$2,000 to the School during the audit period which was not repaid during the audit. The School fiscal officer loaned the School \$3,000 and was repaid during the audit period. These notes were not collateralized. A Board Member was paid \$27,580, for grant administration services.

**15. DEBT**

The Board Secretary and the East End Riverfront Community Urban Redevelopment Corporation loaned the Community School \$2,000 and \$4,850, respectively. These interest free loans were not collateralized and were payable in full on any future date the lender demands payment as stated in the loan agreement. These loans were not repaid by the fiscal year end as required by Ohio law.

**EAST END COMMUNITY HERITAGE SCHOOL  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**16. CHARGES FOR SERVICES**

The School has a contract with the City of Cincinnati to provide job training and placement activities. The purpose and objective of this service is to move individuals under Temporary Assistance to Needy Families to self-sufficiency through unsubsidized employment. They also have a contract with the Cincinnati Public School District to provide engineering and technology education to students.

**17. FEDERAL EXEMPT STATUS**

East End Community Heritage School has obtained their 501(c)(3) tax exempt status. Management is not aware of any course of action or series of events that have occurred that might adversely affect the school's tax exempt status.

**18. PURCHASED SERVICES**

For the year ended June 30, 2001, purchased service expenses were comprised of the following:

Professional and Technical Services		
Program Director Services	\$25,860	
Accounting & Business Services	46,620	
Educational Contract Services	103,677	
EMIS Services	<u>4,962</u>	
Total Professional and Technical Services		\$181,119
Books and Subscriptions		6,655
Building Operations		13,178
Leases		36,440
Utilities		13,411
Communications		10,974
Cafeteria Upgrades		18,360
Other Purchased Services		<u>968</u>
Total Purchased Services		<u>\$281,105</u>

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STATE OF OHIO  
OFFICE OF THE AUDITOR  
JIM PETRO, AUDITOR OF STATE

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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON  
INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

East End Community Heritage School  
Hamilton County  
2423 Eastern Avenue  
Cincinnati, Ohio 45209

To the Board of Trustees:

We have audited the financial statements of East End Community Heritage School, Hamilton County, Ohio (the Community School), as of and for the year ended June 30, 2001, and have issued our report thereon dated April 9, 2002, wherein we noted that there is a substantial doubt about the Community School's ability to continue as a going concern. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Community School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2001-10431-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the Community School in a separated letter dated April 9, 2002.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Community School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financing reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financing reporting that, in our judgement, could adversely affect the Community School's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2001-10431-001 and 2001-10431-002. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above are material weaknesses.

East End Community Heritage School  
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This report is intended for the information and use of management, the Board of Trustees, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is fluid and cursive, with a large loop at the end.

**Jim Petro**  
Auditor of State

April 9, 2002

**EAST END COMMUNITY HERITAGE SCHOOL  
HAMILTON COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2001**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

**FINDING NUMBER 2001-10431-001**

**Material Noncompliance/Reportable Condition**

Ohio Rev. Code, Section 3314.03(A)(10), requires all community school classroom teachers to be licensed in accordance with Ohio Revised Code Sections 3319.22 to 3319.31, except that a community school may engage noncertificated persons to teach up to twelve hours per week pursuant to Ohio Revised Code Section 3319.301. A permit must be issued by the Ohio Department of Education to these "noncertificated" persons in order to teach. The school did not have teaching licenses on file for three full time teachers of the fourteen teachers tested.

Valid teaching certificates and Employee Criminal checks should be kept on file with the Human Resource Director. Failure to maintain required records could result in the inability to perform public education services for the Community School. We recommend employee files reflect the current documentation as required by the school sponsor.

**FINDING NUMBER 2001-10431-002**

**Reportable Condition**

Minute Records

The minutes of the Board of Trustees had the following deficiencies:

- The minutes of the Board did not indicate the type of meeting held.
- The minutes did not document attendance of Board members.
- The information in the minutes was vague and did not properly report all aspects of the Board actions.
- The Treasurer's report was not always approved in the minutes.
- The minute proceedings were not recorded on numbered pages, nor were they bound with the appropriate attachments.

**EAST END COMMUNITY HERITAGE SCHOOL  
HAMILTON COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2001  
(Continued)**

The minutes are the official proceedings of the School and should document all significant actions. Failure to take corrective actions could result in the following not being officially documented:

- Matters significant for financial statement disclosure.
- Related party transactions.
- Litigation, claims and assessments.
- Grants and donations.
- Material additions, sales, abandonments, etc. of property, plant and equipment.
- Authorizations for new debt, principal and interest payments, and refinancing of debt.
- Adoption of the budget and changes.
- Motor vehicle, accident, and liability insurance coverage.
- School board member attendance at board meetings.
- Contracts or letting bids for contracts.
- Changes in salaries or benefits.
- Authorization to hire new employees or create new positions.

We recommend the Community School minutes include the above information relating to Board actions.

The Board of Trustees provides a monitoring control for the Community School when they review and approve the Treasurer's Report which is submitted during each meeting. We recommend the Board review and approve the report and document the action in the official minutes. The Treasurer's Report should include detailed receipts and expenditures, budget versus actual figures, bank reconciliation, and investment information, if applicable.

The minutes from the Board of Trustees meetings were not numbered and bound, nor were they kept in a location convenient for public inspection. Failure to number the pages of the minute records could allow records to be lost or altered, threatening their completeness, accuracy, and authenticity. We recommend the minutes be recorded on numbered pages and bound with applicable attachments. We also recommend the minutes be kept at the school to make them available for public inspection.





STATE OF OHIO  
OFFICE OF THE AUDITOR  

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800-282-0370  
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**EAST END COMMUNITY HERITAGE SCHOOL**

**HAMILTON COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 21, 2002**