



**EAST END COMMUNITY HERITAGE SCHOOL  
HAMILTON COUNTY**

**SINGLE AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2002**



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

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**STATE OF OHIO**



**EAST END COMMUNITY HERITAGE SCHOOL  
HAMILTON COUNTY**

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STATE OF OHIO  
OFFICE OF THE AUDITOR

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**REPORT OF INDEPENDENT ACCOUNTANTS**

East End Community Heritage School  
Hamilton County  
P.O. Box 9889  
Cincinnati, OH 45209

To the Members of the Board:

We have audited the accompanying Balance Sheet of East End Community Heritage School, Hamilton County, Ohio (the School), as of June 30, 2002, and the related Statement of Revenues, Expenses, and Changes in Retained Earnings, and the Statement of Cash Flows for the year then ended. These financial statements are the responsibility of the 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, Ohio (the School), as of June 30, 2002, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2002 on our consideration of the 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.

We performed our audit to form an opinion on the financial statements listed above of the School taken as a whole. The accompanying schedule of federal awards expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. We subjected this information to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a long, sweeping underline.

**Jim Petro**  
Auditor of State

December 6, 2002

**EAST END COMMUNITY HERITAGE SCHOOL  
HAMILTON COUNTY**

**BALANCE SHEET  
AS OF JUNE 30, 2002**

**Assets**

**Current Assets:**

Cash	\$ 37,019
Intergovernmental Receivable	114,958
Sponsor Receivable	<u>74,778</u>

Total Current Assets 226,755

**Noncurrent Assets**

Furniture and Equipment (Net of accumulated depreciation)	<u>30,301</u>
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**Total Assets** \$ 257,056

**Liabilities and Fund Equity**

**Current Liabilities:**

Account Payable	\$ 22,674
Contract Payable	8,593
Accrued Wages and Benefits	84,832
Intergovernmental Payable	23,400
Lease Payable	<u>18,139</u>

**Total Liabilities** 157,638

**Fund Equity:**

Retained Earnings: Unreserved	<u>99,418</u>
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**Total Liabilities and Fund Equity** \$ 257,056

*The accompanying 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  
FOR THE YEAR ENDED JUNE 30, 2002**

<b>Operating Revenues:</b>	
State Foundation Payments	\$ 828,447
Disadvantaged Pupil Impact Aid	83,795
State Special Education	32,480
Revenue from Sponsor	313,504
Other Operating Revenue	<u>9,204</u>
Total Operating Revenues	<u>1,267,430</u>
<b>Operating Expenses:</b>	
Salaries	779,380
Fringe Benefits	214,283
Purchased Services	316,213
Materials and Supplies	91,495
Depreciation	4,966
Other Operating Expenses	<u>45,908</u>
Total Operating Expenses	<u>1,452,245</u>
<b>Operating Loss</b>	<u>(184,815)</u>
<b>Non-Operating Revenues/(Expenses)</b>	
Federal Grants	450,306
State Grants	17,246
Fundraising Income	<u>6,099</u>
Total Non-Operating Revenues	<u>473,651</u>
<b>Net Income</b>	288,836
Retained Earnings at Beginning of Year	<u>(189,418)</u>
<b>Retained Earnings at End of Year</b>	<u><u>\$ 99,418</u></u>

*The accompanying 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, 2002**

**Increase (Decrease) in Cash and Cash Equivalents**

**Cash Flows from Operating Activities:**

Cash Received from State of Ohio	\$ 962,965
Cash Received from Sponsor	238,664
Cash Payments to Employees for Services and Benefits	(1,064,821)
Cash Payments to Suppliers for Goods and Services	(509,073)
Other Operating Revenue	9,204
	9,204

Net Cash Used for Operating Activities (363,061)

**Cash Flows from Noncapital Financing Activities:**

State and Federal Grants Received	433,294
Fundraising Income	6,099
	6,099

Net Cash Provided by Noncapital Financing Activities 439,393

**Cash Flows from Capital and Related Financing Activities:**

Acquisition of Capital Assets	(30,865)
Debt Payments	(6,850)
	(6,850)

Net Cash Used for Capital and Related Financing Activities (37,715)

Net Increase in Cash and Cash Equivalents 38,617

Cash and Cash Equivalents at Beginning of Year (1,598)

Cash and Cash Equivalents at End of Year \$ 37,019

**Reconciliation of Operating Loss to Net Cash Used  
for Operating Activities:**

Operating Loss \$ (184,815)

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

Depreciation	4,966
Changes in Assets and Liabilities:	
Decrease in Intergovernmental Receivable	18,243
(Increase) in Accounts Receivable	(74,778)
(Decrease) in Accounts Payable	(37,703)
Increase in Contracts Payable	2,976
(Decrease) in Intergovernmental Payable	(42,995)
(Decrease) in Lease Payable	(20,791)
(Decrease) in Accrued Wages	(23,332)
(Decrease) in Compensated Absences Payable	(4,832)
	(4,832)

Total Adjustments (178,246)

Net Cash Used for Operating Activities \$ (363,061)

*The accompanying 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, 2002**

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

East End Community Heritage School, Hamilton County, Ohio (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 2002.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the School have been prepared in conformity with generally accepted accounting principles 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 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.

**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.

**EAST END COMMUNITY HERITAGE SCHOOL  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

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

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. Fixed Assets**

Fixed assets are capitalized at cost (or estimated historical cost) and updated for additions or retirements during the year. Donated fixed assets are recorded at their fair market value as of the dates received. The School maintains a capitalization threshold of two 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. Textbooks, computers, and equipment are depreciated using the straight-line method over the estimated useful lives. The estimated useful life for textbooks and equipment is 7 years, and the estimated useful life for computers is 3 years. The school building is leased, and therefore is not listed as property owned.

**E. 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 and received \$250,000 to offset startup costs of the School. Revenue received from this program is recognized as non-operating revenue in the accompanying financial statements.

**EAST END COMMUNITY HERITAGE SCHOOL  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

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

**F. Revenue from Sponsor**

The School receives money from its sponsor (Cincinnati City School District) for the difference between the School's adjusted per pupil amount and the formula amount as defined by Ohio Revised Code for each Cincinnati City School District resident full-time equivalent (FTE) student enrolled at the School.

The adjusted per pupil amount is based on the most up-to-date information from the Ohio Department of Education for School Foundation payments made to Cincinnati Public Schools, Administrative and Debt Costs for Cincinnati City School District and the School, and the Average Daily Membership (ADM) for Cincinnati City School District and the School.

**G. Compensated Absences**

The criteria for determining vacation, sick, and personal 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. Sick pay, personal leave, and vacation leave benefits are not accrued as a liability at year-end. The School's policy for unused sick, personal, or vacation time did not provide for payment of unused leave.

**3. CASH**

At June 30, 2002, the School had a carrying value of deposits of \$37,019 which is reported as Cash and Cash Equivalents in the accompanying financial statements. The bank balance of the School's deposits was \$55,846 which is covered through federal depository insurance (FDIC).

**4. RECEIVABLES**

Receivables at June 30, 2002, consisted of intergovernmental (federal grants) receivables and accounts 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. Accounts receivables consist of money due to the School from its sponsor, Cincinnati City School District.

**5. FIXED ASSETS**

A summary of the fixed assets at June 30, 2002:

Equipment	\$ 5,620
Computers	14,000
Textbooks	<u>15,647</u>
Total Fixed Assets	\$ 35,267
Less: Accumulated Depreciation	<u>(4,966)</u>
Net Fixed Assets	<u>\$ 30,301</u>

**EAST END COMMUNITY HERITAGE SCHOOL  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**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 2002, 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.

**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, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

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 2002, 5.46 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 years ended June 30, 2002 and 2001 was \$12,507 and \$27,705, respectively; 93 percent has been contributed for fiscal year 2002 and 100 percent has been contributed for fiscal year 2001. \$910, representing the unpaid contribution for fiscal year 2002, 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.

**EAST END COMMUNITY HERITAGE SCHOOL  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**7. DEFINED BENEFIT PENSION PLANS (Continued)**

Plan members are required to contribute 9.3 percent of their annual covered salary and the School is required to contribute 14 percent; 9.5 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 years ended June 30, 2002 and 2001 was \$50,559 and \$74,537, respectively; 85 percent has been contributed for fiscal year 2002 and 100 percent has been contributed for fiscal year 2001. \$7,554, representing the unpaid contribution for fiscal year 2002, is recorded as a liability.

**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.

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 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$23,949 during the 2002 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001 (the latest information available) net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

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 8.54 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 \$19,562 during the 2002 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, 2001 (the latest information available), were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefit of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**EAST END COMMUNITY HERITAGE SCHOOL  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**9. OTHER EMPLOYEE BENEFITS**

**A. 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.

**B. 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.

**10. STATE SCHOOL FUNDING DECISION**

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...". The School is currently unable to determine what effect, if any, this decision will have on its future State funding and 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, 2002.

**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.

**C. State Funding**

The Ohio Department of Education conducts reviews of enrolment 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 conclusions of this review could result in state funding being adjusted. This information was not available as of the date of this report. The School does not anticipate any material adjustments to state funding for fiscal year 2002, as a result of such review.



**EAST END COMMUNITY HERITAGE SCHOOL  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**12. OPERATING LEASE**

The School leases a building from the Cincinnati Public School District. A lease was signed for one year beginning July 1, 2001. The lease payments are \$6,120 a month payable in ten monthly installments totaling \$61,200 a year, with a 2% credit allotted for the space occupied by a CPS sponsored program. The School paid \$41,983 for fiscal year 2002 and has a payable of \$17,993 at June 30, 2002. Either party may request negotiations beginning by February 1, 2002 for a new lease term.

The School also leased office space in a building adjacent to the school for \$200 a month beginning July 1, 2001 and ending August 31, 2002. The School paid \$2,400 during 2002. The School did not renew this lease.

**13. RELATED PARTY TRANSACTIONS**

A Board Member was paid \$4,217 in fiscal year 2002, for supervising the TANF grant for the School.

**14. DEBT**

The Board Secretary and the East End Riverfront Community Urban Redevelopment Corporation loaned the Community School \$2,000 in April 2001 and \$4,850 in February 2001, respectively. These loans were paid in September 2001 and November 2001 respectively.

**15. FEDERAL EXEMPT STATUS**

The 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.

**EAST END COMMUNITY HERITAGE SCHOOL  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**16. PURCHASED SERVICES**

For the year ended June 30, 2002, purchased service expenses were comprised of the following:

Professional Development	\$10,537
Accounting & Business Services	56,004
Educational Contract Services	51,000
Psychological Testing	22,000
Special Education	3,821
EMIS Services	4,889
Hamilton/Clermont Cooperative Association	14,500
Printing and Reproduction	13,667
Postage and Delivery	843
Licenses and Permits	941
Bus Transportation	2,789
Building Operations	6,686
Rent	74,859
Utilities	16,905
Communications	16,063
Cafeteria Upgrades	240
Other Purchased Services	<u>20,469</u>
Total Purchased Services	<u>\$316,213</u>

**EAST END COMMUNITY HERITAGE SCHOOL  
HAMILTON COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2002**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>				
<i>Passed Through Ohio Department of Education:</i>				
Nutrition Cluster:				
Food Distribution Program	N/A	10.550		
School Breakfast Program	05-PU	10.553	\$ 20,817	\$ 20,817
National School Lunch Program	LL-P4	10.555	38,072	38,072
Total U.S. Department of Agriculture - Nutrition Cluster			<b><u>58,889</u></b>	<b><u>58,889</u></b>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>				
<i>Passed Through Ohio Department of Education:</i>				
Special Education Cluster:				
Special Education Grants to States (IDEA Part B)	6B-SF	84.027	8,385	-
Total Special Education Cluster			<b><u>8,385</u></b>	<b><u>-</u></b>
Grants to Local Educational Agencies (ESEA Title I)	C1-S1	84.010	58,686	70,971
Drug-Free Schools Grant	DR-S1	84.186	1,376	1,433
Innovative Educational Program Strategies	C2-S1	84.298	798	1,049
Classroom Size Reduction	CR-S1	84.340	9,452	1,438
Eisenhower Professional Development State Grant	MS-S1	84.281	1,697	-
Charter School Grant	CH-S1	84.282	250,000	272,976
Total Department of Education			<b><u>330,394</u></b>	<b><u>347,867</u></b>
<b><u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>				
<i>Passed Through the City of Cincinnati:</i>				
Temporary Assistance for Needy Families	N/A	93.558	24,519	43,073
<b>Totals</b>			<b><u>\$ 413,802</u></b>	<b><u>\$ 449,829</u></b>

**EAST END COMMUNITY HERITAGE SCHOOL  
HAMILTON COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2002**

**NOTE A--SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the School's federal award programs. The schedule has been prepared on the cash basis of accounting.

**NOTE B -- MATCHING REQUIREMENTS**

Certain Federal programs require that the School contribute non-Federal funds (matching funds) to support the Federally-funded programs. The School has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



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  
P.O. Box 9889  
Cincinnati, OH 45209

To the Members of the Board:

We have audited the financial statements of East End Community Heritage School, Hamilton County, Ohio (the School), as of and for the fiscal year ended June 30, 2002, and have issued our report thereon dated December 6, 2002. 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 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 the management of the School in a separate letter dated December 6, 2002.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the 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 financial 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 financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2002-10431-002.

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 the reportable condition described above is not a material weaknesses.

We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the School in a separate letter dated December 6, 2002.

This report is intended for the information and use of the finance committee, management, the Board, 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", with a large, stylized flourish at the end.

**Jim Petro**  
Auditor of State

December 6, 2002



STATE OF OHIO  
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

East End Community Heritage School  
Hamilton County  
P.O. Box 9889  
Cincinnati, OH 45209

To the Members of the Board:

**Compliance**

We have audited the compliance of East End Community Heritage School, Hamilton County, Ohio (the School), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2002. The School's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the School's management. Our responsibility is to express an opinion on the School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School's compliance with those requirements.

In our opinion, East End Community Heritage School complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings as item 2001-10431-001.

**Internal Control Over Compliance**

The management of the School is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance 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 compliance that, in our judgment, could adversely affect the School's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described in the accompanying schedule of findings as item 2002-10431-002.

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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance 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 the reportable condition described above is not a material weaknesses.

This report is intended for the information and use of the finance committee, management, the Board, 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.



**Jim Petro**  
Auditor of State

December 6, 2002



**EAST END COMMUNITY HERITAGE SCHOOL  
HAMILTON COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 §.505  
JUNE 30, 2002**

**1. SUMMARY OF AUDITOR'S RESULTS**

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iii)</b>	<b>Was there any reported material non-compliance at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	Yes
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510?</b>	Yes
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Charter School Grant (84.282)
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	No

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

**FINDING NUMBER 2002-10431-001**

**FINDING FOR RECOVERY**

T<sup>2</sup>=E<sup>2</sup> Associates, Inc. was paid to deliver and install 110 computers and 20 printers for \$18,000 (\$107.69 per item and \$4,000 for installation and training) to East End Community Heritage School in February 2002. T<sup>2</sup>=E<sup>2</sup> Associates, Inc. delivered and installed 101 of the computers ordered and has not installed any of the printers, but was paid in full for all computers and printers.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery in favor of East End Community Heritage School in the amount of \$3,123 (\$107.69 \* (9 computers plus 20 printers)), for the illegal expenditure of public monies, is hereby issued against T<sup>2</sup>=E<sup>2</sup> Associates, Inc.

**FINDING NUMBER 2002-10431-001  
 (Continued)**

See finding number 2002-10431-002; these finding is also required to be reported in accordance with GAGAS.

**3. FINDINGS FOR FEDERAL AWARDS**

<b>Finding Number</b>	2002-10431-002
<b>CFDA Title and Number</b>	Charter School Grant, CFDA # 84.282
<b>Federal Award Number / Year</b>	134288 CH-S1-01
<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Reportable Condition – Nonpayroll Disbursements**

The following control weaknesses were noted in the non-payroll disbursement process:

- There was no indication that expenditures were approved prior to purchases being made by the Treasurer or other authorized personnel for forty percent of the disbursements reviewed.
- Invoices were not initialed by the receiver before payment of the invoice. Initialing the invoice represents the good or services were received.
- There was no supporting documentation for three out of sixty disbursements reviewed (five percent).

These control weaknesses could result in errors or misstatements in the financial records, the unauthorized purchase of goods or services, or the misappropriation of School assets. To improve accountability over disbursements, the School should include in their policies and procedures for purchases the following:

- Prior authorization of a purchase, through the use of a purchase order which documents approval by the appropriate members of management and includes appropriate coding of expenditures.
- All appropriate supporting documentation (purchase orders, original invoices, verification of receipt of purchases and agreement to invoices) should be compiled prior to authorization for payment and filed in an orderly manner to assist in ease of retrieving information when necessary.
- Detailed review of the invoice and supporting documentation indicating descriptions of the good/services received and documentation on the invoice that the goods/services were received.

**EAST END COMMUNITY HERITAGE SCHOOL  
HAMILTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 § .315 (b)  
JUNE 30, 2002**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected</u> ?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain:</i></b>
001	ORC 3314.03(A)(10) requires teachers to be licensed	Yes	
002	Deficiencies in the minutes of the Board	No	Partially Corrected. This issue is addressed in the 2002 audit as a Management Letter recommendation.





STATE OF OHIO  
OFFICE OF THE AUDITOR  

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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  
JANUARY 9, 2003**