



**Auditor of State
Betty Montgomery**

**EAST END COMMUNITY HERITAGE SCHOOL
HAMILTON COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

East End Community Heritage School
Hamilton County
2423 Eastern Avenue
Cincinnati, Ohio 45202

To the Members of the Board:

We have audited the accompanying basic financial statements of East End Community Heritage School, Hamilton County, Ohio (the School), as of and for the year ended June 30, 2004, as listed in the table of contents. 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 the Comptroller General of the United States' *Government Auditing Standards*. 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 the East End Community Heritage School, Hamilton County, Ohio, as of June 30, 2004, and the changes in financial position and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 12, during the year ended June 30, 2004, the School implemented a new financial reporting model, as required by the provisions of Government Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2005 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 agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the School's basic financial statements. The federal awards expenditure schedule is 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 basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

December 14, 2005

**EAST END COMMUNITY HERITAGE SCHOOL
HAMILTON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

The discussion and analysis of the East End Community Heritage School's (the School) financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2004. 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 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 new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Government issued June, 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

- In total, net assets decreased \$11,852 which represents a 3.3 percent decrease from 2003. This decrease was due to a expenses being greater than revenues.
- Total assets decreased \$20,556, which represents a 3.8 percent decreased from 2003. This was primarily due to an increase in total accumulated depreciation.
- Liabilities decreased \$8,704, which represents a 4.8 percent decreased from 2003. This decrease was due to a decrease in intergovernmental and lease payables.

Using this Financial Report

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

The Statement of Net Assets and Statement of Activities answers the question, "How did we do financially during 2004?"

Statement of Net Assets

The Statement of Net Assets includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and 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.

Table 1 provides a summary of the School's net assets for fiscal year 2004 and fiscal year 2003:

**EAST END COMMUNITY HERITAGE SCHOOL
HAMILTON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

(Table 1)
Net Assets

	2004	2003
Assets		
Current Assets	\$490,906	\$501,709
Capital Assets, Net	31,669	41,422
Total Assets	522,575	543,131
 Liabilities		
Current Liabilities	173,458	182,162
Total Liabilities	173,458	182,162
 Net Assets		
Invested in Capital Assets	31,669	41,422
Unrestricted	317,448	319,547
Total Net Assets	\$349,117	\$360,969

Total assets decreased \$11,852. This decrease was primarily due to an increase accumulated depreciation. Equity in pooled cash and cash equivalents increased by \$183,928. Intergovernmental receivables decreased by \$195,115. This decrease was due to the timing of the receipt of some grants. In fiscal year 2004, the grant reporting period changed to correspond with the fiscal year. Capital Assets, net of depreciation decreased by \$9,753.

**EAST END COMMUNITY HERITAGE SCHOOL
HAMILTON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

Table 2 shows the changes in net assets for fiscal year 2004 and fiscal year 2003, as well as a listing of revenues and expenses.

(Table 2)
Change in Net Assets

	2004	2003
Operating Revenues:		
Foundation Payments	\$1,054,664	\$942,851
Disadvantaged Pupil Impact Aid	73,231	71,796
State Special Education	175,444	56,149
Revenue from Sponsor	353,877	353,525
Other	7,681	9,074
Non-Operating Revenues:		
Federal and State Grants	374,024	333,574
Total Revenues	2,038,921	1,766,969
 Operating Expenses		
Salaries	951,405	743,703
Fringe Benefits	306,414	228,094
Purchased Services	566,615	423,318
Materials and Supplies	135,517	86,360
Depreciation	12,850	9,155
Other Expenses	77,972	14,788
Total Expenses	2,050,773	1,505,418
 Change in Net Assets	(\$11,852)	\$261,551

Although net assets decreased from 2003 to 2004, the amount of change in net assets decreased \$273,403 when compared to 2003. This was primarily due to increased expenditures for building repairs. There was an increase in revenues of \$271,952 and an increase in expenses of \$545,355 from 2003. Of the increase in revenues, the foundation payments increased by \$111,813, State Special Education increased by \$119,295, and the Disadvantaged Pupil Impact Aid increased by \$1,435. Community Schools receive no support from tax revenues.

The expense for salaries increased by \$207,702 and the expense for fringe benefits increased by \$78,320 due to an increase in staff during fiscal year 2004. Purchased services expenses increased \$143,297 due to increases in psychological testing, building operations, and rent. Material and supplies expense increased by \$49,157 from 2003 due to more supplies being purchased for the Career Technical Adult Education program and summer school. Depreciation expense increased by \$3,695 due to the purchase of new computers. According to the School's capital asset policy, depreciation is expensed for new capital assets in the each month beginning in the month they are purchased.

**EAST END COMMUNITY HERITAGE SCHOOL
HAMILTON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

Capital Assets

At the end of fiscal year 2004 the School had \$58,641 invested in furniture, fixtures, and equipment, computers, and textbooks which represented an increase of \$9,753 from 2003. Table 3 shows fiscal year 2004 and fiscal year 2003:

(Table 3)
**Capital Assets at June 30, 2004
(Net of Depreciation)**

	2004	2003
Furniture, Fixtures, and Equipment	\$5,540	\$8,295
Computers	15,849	20,617
Textbooks	10,280	12,510
Totals	<u>\$31,669</u>	<u>\$41,422</u>

For more information on capital assets see Note 5 to the basic financial statements.

Current Financial Issues

The East End Community Heritage School was formed in 1999. During the 2003-2004 school year, there were approximately 205 students enrolled in the School. The School receives its finances mostly from state aide. Per pupil aide for fiscal year 2004 amounted to \$5,660 per student. The average number of years experience for teachers was 7 years.

Contacting the School's Financial Management

This financial report is designed to provide our citizen's with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional information, contact Stephanie Millard, Treasurer at 3015 Clifton Avenue, Cincinnati, Ohio 45220 or e-mail at stephanie.millard@zoomtown.com.

**EAST END COMMUNITY HERITAGE SCHOOL
HAMILTON COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2004**

Assets

Current Assets:

Equity in Pooled Cash	\$320,415
Intergovernmental Receivables	66,060
Sponsor Receivable	102,398
Prepaid Items	<u>2,033</u>
Total Current Assets	490,906

Non-Current Assets:

Capital Assets:

Depreciable Capital Assets, Net	<u>31,669</u>
Total Non-Current Assets	<u>31,669</u>

Total Assets \$522,575

Liabilities

Current Liabilities:

Accounts Payable	\$38,897
Accrued Wages and Benefits	102,603
Intergovernmental Payable	14,364
Lease Payable	14,994
Loan Payable	<u>2,600</u>

Total Liabilities 173,458

Net Assets

Invested in Capital Assets	31,669
Unrestricted	<u>317,448</u>

Total Net Assets \$349,117

See accompanying notes to the basic financial statements

**EAST END COMMUNITY HERITAGE SCHOOL
HAMILTON COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Operating Revenues	
Foundation Payments	\$1,054,664
State Special Education	175,444
Disadvantaged Pupil Impact Aid	73,231
Receipts from Sponsor	353,877
Intervention Funds	<u>7,681</u>
<i>Total Operating Revenues</i>	<u>1,664,897</u>
Operating Expenses	
Salaries	951,405
Fringe Benefits	306,414
Purchased Services	566,615
Materials and Supplies	135,517
Depreciation	12,850
Other	<u>77,972</u>
<i>Total Operating Expenses</i>	<u>2,050,773</u>
<i>Operating Loss</i>	<u>(385,876)</u>
Non-Operating Revenues and Expenses	
Fundraising Income	7,335
Other Federal and State Grants	290,881
Federal and State Meal Subsidies	<u>75,808</u>
<i>Total Non-Operating Revenues and Expenses</i>	<u>374,024</u>
<i>Change in Net Assets</i>	(11,852)
<i>Net Assets Beginning of Year</i>	<u>360,969</u>
<i>Net Assets End of Year</i>	<u><u>\$349,117</u></u>

See accompanying notes to the basic financial statements

**EAST END COMMUNITY HERITAGE SCHOOL
HAMILTON COUNTY**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities:

Cash Received from Sponsor	\$352,274
Cash Received from State of Ohio	1,303,340
Cash Received from Intervention	7,681
Cash Payments to Employee	(1,242,195)
Cash Payments for Supplies	(725,240)
Cash Payments to Others	(77,972)
	(382,112)
Net Cash Used for Operating Activities	(382,112)

Cash Flows from Noncapital Financing Activities:

Federal and State Subsidies Received	75,807
Operating Grants Received	485,996
Fundraising Income	7,335
	569,138
Net Cash Provided by Noncapital Financing Activities	569,138

Cash Flows from Capital and Related Financing Activities:

Payments for Capital Acquisitions	(3,098)
	(3,098)
Net Increase in Cash and Cash Equivalents	183,928
Cash and Cash Equivalents at Beginning of Year	136,487
	136,487
Cash and Cash Equivalents at End of Year	\$320,415
	\$320,415

(continued)

**EAST END COMMUNITY HERITAGE SCHOOL
HAMILTON COUNTY**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

Reconciliation of Operating Loss to Net

Cash Used for Operating Activities:

Operating Loss (\$385,876)

Adjustments to Reconcile Operating

Income to Net Cash Provided by Operating Activities

Depreciation	12,850
Changes in Assets and Liabilities:	
Increase in Sponsor Receivable	(1,603)
Increase in Accounts Payable	23,304
Increase in Accrued Wages	16,978
Decrease in Intergovernmental Receivables	(2,573)
Decrease in Lease Payable	(14,735)
Decrease in Employee Advances Receivable	1,219
Increase in Loan Payable	2,600
Decrease in Contract Payable	(34,276)

Total Adjustments 3,764

Net Cash Used for Operating Activities (\$382,112)

See accompanying notes to the basic financial statements

**EAST END COMMUNITY HERITAGE SCHOOL
HAMILTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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 approved evaluation 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 qualifies as an exempt organization under Section 501c (3) of the Internal Revenue Code. 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.

The School was approved for operation under contract with the Cincinnati Public School District (the Sponsor) for a period of five years commencing July 1, 1999. 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 of Trustees 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 2 case managers, 1 non-certified, and 17 certificated full time teaching personnel who provide services to 205 students.

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. The School also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities, 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

The School's basic financial statements consist of a statement of net assets, a statement of revenue, expenses and changes in net assets, and a statement of cash flows.

**EAST END COMMUNITY HERITAGE SCHOOL
HAMILTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Enterprise fund reporting focuses on the determination of the change in net assets, financial position and cash flows.

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 statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the School finances and meets the cash flow needs of its enterprise activities.

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

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

C. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the community school's contract with its sponsor. The contract between the School and its Sponsor does prescribe an annual budget requirement in addition to preparing a five-year forecast, which is to be updated on an annual basis. The School follows a budget that is adopted and revised as needed.

D. Prepaid Items

Payments made to vendors or employees for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

E. Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market value as of the date received. The School maintains a capitalization threshold of two thousand dollars. The School does not possess any infrastructure. Improvements are capitalized. 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 expensed.

Depreciation of furniture and equipment is computed using the straight-line method over an estimated useful life of five years. Improvements to fixed assets are depreciated over the remaining useful lives of the capital assets. Improvements to the leased building are depreciated over the remaining life of the lease. The School does not possess any infrastructure.

**EAST END COMMUNITY HERITAGE SCHOOL
HAMILTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. 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 and personal leave benefits are not accrued as a liability at year-end. The financial statements do not include a liability for compensated absences, since none of the employees had vacation leave balances at year end. The School's policy only provides leave payments for unused vacation time.

G. Net Assets

Net assets represent the difference between assets and liabilities. Assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. The School has no debt.

H. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the School, these revenues are primarily foundation payments from the state and sales for food service. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the School. Revenues and expenses not meeting this definition are reported as non-operating.

I. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

3. DEPOSITS

At June 30, 2004, the School's deposits were \$320,415, and the bank balance was \$358,376. Of the bank balance, \$100,000 was covered by federal depository insurance and \$258,376 was collateralized with securities held in a single financial institution's pool of investments pledged to collateralize all public deposits. Although the securities serving as collateral were held by the pledging financial institution's trust department in the School's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School to a successful claim by the Federal Deposit Insurance Corporation.

**EAST END COMMUNITY HERITAGE SCHOOL
HAMILTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

4. RECEIVABLES

Receivables at June 30, 2004, consisted of intergovernmental and sponsor grants. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of receivables follows:

	Amounts
Sponsor Receivable	\$102,398
Title VI-B IDEA-B	32,059
Other Federal Grant	34,000
Total All Receivables	\$168,457

5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004:

	Balance 6/30/03	Additions	Deletions	Balance 6/30/04
Business-Type Activity				
Capital Assets Being Depreciated				
Furniture, Fixtures, and Equipment	\$22,840	\$0	\$0	\$22,840
Computers	17,056	3,098	0	20,154
Textbooks	15,647	0	0	15,647
Total Capital Assets				
Being Depreciated	55,543	3,098	0	58,641
Less Accumulated Depreciation:				
Furniture, Fixtures, and Equipment	(10,123)	(7,177)	0	(17,300)
Computers	(861)	(3,444)	0	(4,305)
Textbooks	(3,137)	(2,230)	0	(5,367)
Total Accumulated Depreciation	(14,121)	(12,851)	0	(26,972)
Total Capital Assets				
Being Depreciated, Net	41,422	(9,753)	0	31,669
Business-Type Activity				
Capital Assets, Net	\$41,422	(\$9,753)	\$0	\$31,669

**EAST END COMMUNITY HERITAGE SCHOOL
HAMILTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(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 2004, the School contracted with Hartford Insurance Company for general liability, property, and for educational errors and omissions insurance. The policy's general aggregate, personal and advertising injury, and each occurrence limit is \$1,000,000 with a \$500 deductible. There has been no reduction in coverage from the prior year and settled claims have not exceeded the School's coverage in the past two years.

B. Workers' Compensation

The School pays the State Workers' 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 (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides 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 Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$37,891, \$14,411, and \$12,507, respectively; 96 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. The unpaid contribution for fiscal year 2004 totaling \$1,785 is recorded as a liability.

B. State Teachers Retirement System of Ohio

The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

**EAST END COMMUNITY HERITAGE SCHOOL
HAMILTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 1999, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 1999. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2004, 2003, and 2002 were \$77,938, \$73,194, and \$50,559, respectively; 99.9 percent has been contributed for fiscal year 2004 and 100 percent for fiscal year 2003 and 2002.

8. POSTEMPLOYMENT BENEFITS

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (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 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. For the fiscal year ended June 30, 2003, the STRS Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$7,793 for fiscal year 2004.

**EAST END COMMUNITY HERITAGE SCHOOL
HAMILTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

8. POSTEMPLOYMENT BENEFITS (Continued)

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2003, (the latest information available) the balance was \$2.8 billion. For the year ended June 30, 2003, net health care costs paid by STRS were \$352.3 and STRS had 108,294 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.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 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 2002, the minimum pay was established at \$14,500. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$15,779.

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, 2003 (the latest information available), were \$204.9 million and the target level was \$307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 million. SERS has approximately 50,000 participants currently receiving health care benefits.

9. EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from policies and procedures approved by the Board of Trustees. Non-certified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to non-certified employees upon termination of employment. Teachers and administrators who are not on a twelve month contract do not earn vacation time.

Teachers, administrators, and non-certified employees are allowed 3 sick days per year; any unused sick leave is not accumulated.

B. Insurance Benefits

The School provides life and medical/surgical benefits to most employees through Anthem Blue Cross Blue Shield of Ohio. The School also provides dental benefits to most employees through Dental Care Plus.

**EAST END COMMUNITY HERITAGE SCHOOL
HAMILTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

10. 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the School. 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, 2004.

B. State Funding

The Ohio Department of Education reviews enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews ensure the schools are reporting accurate student enrollment data of the State, upon which state foundation funding is calculated. For fiscal year 2004, the review was completed in January 2005. For the School, there was an insignificant variance between the amount received to date and the final payment in 2003; an insignificant variance is expected for fiscal year 2004 also. This variance will have no effect on the financial standing of the School.

C. Litigation

The suit was filed in Franklin County Common Pleas Court on May 14, 2001 alleging Ohio's Community (i.e., Charter) school's program violates the state Constitution and state laws. On April 21, 2003, the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed and the case was heard on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral argument occurred November 29, 2005. The effect of this suit, if any, on the School is not presently determinable.

11. CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2004, the School has implemented GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", and GASB Statement No. 38, "Certain Financial Statement Note Disclosures".

GASB 34 creates new basic financial statements for reporting on the School's financial activities and requires the inclusion of the Management's Discussion and Analysis section which provides a narrative introduction and overview of the financial statements to enhance the user's ability to interpret the information within the statements. The beginning net assets amount equals fund equity from last year.

**EAST END COMMUNITY HERITAGE SCHOOL
HAMILTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

12. OPERATING LEASE

The School leases a building from the Cincinnati Public School District. The lease payments are \$4,998 a month payable in ten monthly installments totaling \$49,980 a year, with a 2% credit allotted for the space occupied by a CPS sponsored program. The School paid \$34,986 for fiscal year 2004 and has a payable of \$14,994 at June 30, 2004.

13. PURCHASED SERVICES

For the year ended June 30, 2004, purchased service expenses were comprised of the following:

Professional Development	\$ 11,873
Accounting & Business Services	53,700
Nursing Services	17,313
Administrative Services	58,475
Psychological Testing	53,250
Special Education	4,408
EMIS Services	9,450
Printing & Reproduction	12,717
Postage & Delivery	2,185
Licenses & Permits	200
Bus Transportation	3,432
Building Operations	75,560
Rent	108,386
Utilities	17,884
Communications	46,889
Cafeteria Upgrades	628
Other Purchased Services	<u>90,265</u>
Total	<u>\$ 566,615</u>

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**EAST END COMMUNITY HERITAGE SCHOOL
HAMILTON COUNTY**

**FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2004**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<i>Passed Through Ohio Department of Education:</i>				
Nutrition Cluster:				
School Breakfast Program	05-PU	10.553	\$21,976	\$21,976
National School Lunch Program	LL-P4	10.555	<u>49,658</u>	<u>49,658</u>
Total U.S. Department of Agriculture - Nutrition Cluster			<u>71,634</u>	<u>71,634</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed Through Ohio Department of Education:</i>				
Special Education Cluster:				
Special Education Grants to States (IDEA Part B)	6B-SF	84.027	27,366	26,978
Grants to Local Educational Agencies (ESEA Title I)	C1-S1	84.010	258,849	246,314
Drug Free Schools Grant	DR-S1	84.186	3,657	3,657
21st Century Community Learning Centers Program	T1-S1	84.287	123,251	139,457
Innovative Educational Program Strategies	C2-S1	84.298	2,908	2,137
Improving Teacher Quality State Grants (Title II Part A)	TR-S1	84.318	7,039	3,733
Technology Literacy Challenge Fund Grants (TCLF) (Title II Part D)	TJ-S1	84.367	<u>46,108</u>	<u>22,678</u>
Total Department of Education			<u>469,178</u>	<u>444,954</u>
Totals			<u><u>\$540,812</u></u>	<u><u>\$516,588</u></u>

The accompanying notes to this schedule are an integral part of this schedule.

**EAST END COMMUNITY HERITAGE SCHOOL
HAMILTON COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2004**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B—CHILD NUTRITION CLUSTER

Program regulations do not require the School to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

NOTE C - 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.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

East End Community Heritage School
Hamilton County
2423 Eastern Avenue
Cincinnati, Ohio 45202

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 year ended June 30, 2004, and have issued our report thereon dated December 14, 2005, wherein we noted that the School adopted Governmental Accounting Standards Board Statement No. 34. 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 the Comptroller General of the United States' *Government Auditing Standards*.

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 in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants agreements, noncompliance with which could directly and materially affect 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 we must report under *Government Auditing Standards*. In a separate letter to the School's management dated December 14, 2005, we reported a matter related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management, the Board of Trustees, federal awarding agencies and pass-through entities. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

December 14, 2005



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

East End Community Heritage School
Hamilton County
2423 Eastern Avenue
Cincinnati, Ohio 45202

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 apply to each of its major federal programs for the year ended June 30, 2004. The summary of the auditor's results section of the accompanying schedule of findings identifies the School's major federal programs. The School's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe 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, Hamilton County, Ohio complied, in all material respects, with the requirements referred to above that are apply to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The School's management 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 directly and materially affect a major federal program 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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We intend this report solely for the information and use of the audit committee, management, the Board of Trustees, federal awarding agencies and pass-through entities. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

December 14, 2005

**EAST END COMMUNITY HERITAGE SCHOOL
HAMILTON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Title I – CFDA# 84.010 21 st Century Grant – CFDA# 84.287
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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**EAST END COMMUNITY HERITAGE SCHOOL
HAMILTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315(b)
JUNE 30, 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2003-001	May's monthly cash reconciliation for general checking account not performed accurately. Treasurer reviews monthly reconciliations however the cash reconciliations were not documented as reviewed by the Treasurer.	Yes	
2003-002	Disbursement control weakness related to authorizing purchases and signing off on invoices	No	Partially corrected. Reissued in the Management Letter.



**Auditor of State
Betty Montgomery**

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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
DECEMBER 30, 2005**