EAST END COMMUNITY HERITAGE SCHOOL
HAMILTON COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2006

Mary Taylor, CPA
Auditor of State

EAST END COMMUNITY HERITAGE SCHOOL
HAMILTON COUNTY

TABLE OF CONTENTS

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INDEPENDENT ACCOUNTANTS' REPORT

East End Community Heritage School
Hamilton County
7030 Reading Road Suite 134
Cincinnati, Ohio 45237

To the Board of Directors:

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, 2006, 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 reasonably assure 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 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 respective financial position of East End Community Heritage School, Hamilton County, Ohio, as of June 30, 2006, and the changes in its financial position 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 July 2, 2010, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and 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.

As discussed in Note 13 to the financial statements, the School has accumulated net asset deficiency of $154,567. Note 13 describe Management's plans regarding these matters. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Corporate Centre of Blue Ash / 11117 Kenwood Rd. / Blue Ash, OH 45242
Telephone: (513) 361-8550 (800) 368-7419 Fax: (513) 361-8577
www.auditor.state.oh.us

Management Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Mary Taylor, CPA
Auditor of State

July 2, 2010

EAST END COMMUNITY HERITAGE SCHOOL
HAMILTON COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED

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, 2006. 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 $ 402,531 which represents a 158 percent decrease from 2005. This decrease was due to expenses being greater than revenues. Revenues dropped due to a decline in enrollment and the loss of sponsor funding.

- Total assets decreased $379,849, which represents a 94 percent decrease from 2005. This was primarily due to a decrease in intergovernmental receivables and cash due to a net loss.

- Liabilities increased $40,682, which represents a 30 percent decrease from 2005. This decrease was due to an increase in accounts payable.

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 2006?"

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 2006 and fiscal year 2005:

Table 1 Net Assets

	2006	2005
Assets		
Current Assets	$ 4,219	$ 373,842
Capital Assets, Net	18,383	28,609
Total Assets	22,602	402,451
Liabilities		
Current Liabilities	177,169	136,487
Total Liabilities	177,169	136,487
Net Assets		
Invested in Capital Assets	18,383	28,609
Unrestricted	(172,950)	237,355
Total Net Assets	$ (154,567)	$ 265,964

Total assets decreased $379,849. This decrease was primarily due to a decrease in cash and intergovernmental receivables.

Total liabilities increased $40,682. This decrease was primarily due to an increase in accounts payable.

Table 2 shows the changes in net assets for fiscal year 2006 and fiscal year 2005, as well as a listing of revenues and expenses.

Table 2 Change in Net Assets

	2006	2005
Operating Revenues		
Foundation Payments	$ 1,091,989	$ 1,154,443
State Special Education	109,122	146,669
Revenue from Sponsor	194,001	381,560
Total Operating Revenues	1,395,112	1,682,672
Non-Operating Revenues		
Federal and State Grants	497,284	447,960
Other	28,100	23,947
Total Revenues	1,920,496	2,154,579
Operating Expenses		
Salaries	1,159,681	1,062,445
Fringe Benefits	530,004	412,249
Purchased Servcies	421,836	624,423
Materials and Supplies	200,249	125,993
Depreciation	10,226	10,940
Other Expenses	19,031	1,682
Total Expenses	2,341,027	2,237,732
Changes in Net Assets	$ (420,531)	$ (83,153)

Net assets decreased from 2005 to 2006. Additionally, the amount of decrease in net assets was $337,378 larger when compared to 2005. This was primarily due to increased expenditures for salaries and benefits accompanied by a decrease in revenues. Revenues decreased by $234,083 and expenses increased $103,295 from 2005. Of the decrease in revenues, the foundation payments and sponsor payments decreased by $250,013. Community Schools receive no support from tax revenues.

The expense for salaries increased by $97,236 and the expense for fringe benefits increased by $117,755 due to an increase in staff during fiscal year 2006. Purchased services expenses decreased $202,587 due to decreases in psychological testing, health services, and other program expenses. Depreciation expense decreased by $714 due to some computers reaching full depreciation during the current year. According to the School's capital asset policy, depreciation is expensed for new capital assets in each month beginning in the month they are purchased.

Capital Assets

At the end of fiscal year 2006 the School had $18,383 invested in furniture, fixtures, and equipment, computers, and textbooks which represented a decrease of $10,266 from 2005. Table 3 shows fiscal year 2006 and fiscal year 2005.

Table 3

Capital Assets at June 30, 2006
(Net of Depreciation)

	2006	2005
Furniture, Fixtures & Equipment	$ 10,041	$ 14,288
Computers	2,532	6,276
Textbooks	5,810	8,045
Total Capital Assets	$ 18,383	$ 28,609

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 2005-2006 school year, there were approximately 200 students enrolled in the School. The School receives its finances mostly from state aide. Per pupil aide for fiscal year 2006 amounted to $6,506 per student. The average number of years experience for teachers was 8 years.

Contacting the School's Financial Management

This financial report is designed to provide our citizens 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, 2006

	2006	2005
Assets		
Current Assets		
Cash	$ 358	$ 272,486
Sponsor Receivable	0	97,000
Employee Advances	3,861	4,356
Total Current Assets	4,219	373,842
Noncurrent Assts		
Capital Assets	66,521	66,521
Less Accumulated Depreciation	48,138	37,912
Capital Assets, Net	18,383	28,609
Total Assets	22,602	402,451
Liabilities		
Current Liabilities		
Accounts Payable	70,290	18,104
Accrued Wages and Benefits	77,859	103,389
Intergovernmental Payable	0	14,994
Bank Funded Credit	18,020	0
Short Term Loans	11,000	0
Current Liabilities	177,169	136,487
Total Liabilities	177,169	136,487
Net Assets		
Invested in Capital Assets	18,383	28,609
Unrestricted	(172,950)	237,355
Total Net Assets	$ (154,567)	$ 265,964

See accompanying notes to the basic financial statements

EAST END COMMUNITY HERITAGE SCHOOL
HAMILTON COUNTY

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
JUNE 30, 2006

	2006	2005
Operating Revenues		
Foundation Payments	$ 1,091,989	$ 1,154,443
State Special Education	109,122	146,669
Revenue from Sponsor	194,001	381,560
Total Operating Revenues	1,395,112	1,682,672
Operating Expenses		
Salaries	1,159,681	1,062,445
Fringe Benefits	530,004	412,249
Purchased Servcies	421,836	624,423
Materials and Supplies	200,249	125,993
Depreciation	10,226	10,940
Other Expenses	19,031	1,682
Total Expenses	2,341,027	2,237,732
Operating Loss	(945,915)	(555,060)
Non-Operating Revenues		
Federal and State Grants	497,284	447,960
Other Income	28,100	23,947
Totall Non-Operating Revenues	525,384	471,907
Change in Net Assets	(420,531)	(83,153)
Net Assets Prior Year	265,964	349,117
Ending Net Assets	$ (154,567)	$ 265,964

See accompanying notes to the basic financial statements

EAST END COMMUNITY HERITAGE SCHOOL
HAMILTON COUNTY

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
JUNE 30, 2006

	2006	2005
Cash Flow from Operating Activities:		
Cash Received for School Foundation Payments	$ 1,201,111	$ 1,367,172
Sponsor Payments	291,001	386,958
Cash Payments to Employees and Suppliers for Goods and Services	(2,319,140)	(2,261,163)
Net Cash Used for Operating Activities	(827,028)	(507,033)
Cash Flow from NonCapital Financing Activities:		
Federal and State Subsidies	497,285	447,960
Other Income	28,100	23,947
Net Cash Provided by Noncapital Financing Activities	525,385	471,907
Cash Flows from Capital Financing Activities:		
Payments for Capital Acquisitions	0	(7,880)
Payments on Loan Payable	0	(2,600)
Net Cash Used for Investing Activities	0	(10,480)
Cash Flows from Investing Activities:		
Short-Term Loans	11,000	0
Bank-financed credit	18,020	0
Repayment of Employee Advances	495	(2,323)
Net Cash Provided/(Used) from Investing Activities	29,515	(2,323)
Net (Decrease) in Cash and Cash Equivalents	(272,128)	(47,929)
Cash and Cash Equivalents at Beginning of Year	272,486	320,415
Cash and Cash equivalents at Year End	$ 358	$ 272,486
Reconciliation of Operating (Loss) to Net Cash Used for Operating Activities:		
Operating Loss	$ (945,915)	$ (555,060)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activates		
Depreciation	10,226	10,940
Decrease in Sponsor Receivable	97,000	5,398
Decrease in Intergovernmental Receivables	0	66,060
Increase (Decrease) in Accounts Payable	52,185	(35,787)
Increase (Decrease) in Accrued Wages	(25,530)	786
Increase (Decrease) in Intergovernmental Payable	(14,994)	630
Net Cash Used by Operating Activities	$ (827,028)	$ (507,033)

See accompanying notes to the basic financial statements

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NOTE 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 501(c)(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 contract was extended for fiscal year 2006. 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. In fiscal year 2006, the School signed a contract with a new sponsor, Educational Resource Consultants of Ohio.

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. During fiscal year 2006, there were 5 open Board positions.The Board of Trustees controls the School's one instructional/support facility staffed by 2 case managers, 1 non-certified, and 17 certified full time teaching personnel who provide services to 185 students.

NOTE 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.

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

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

Capital Assets

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 is computed using the straight-line method over the following useful lives:

Furniture, Fixtures and Equipment	5 Years
Computers	3 Years
Textbooks	7 Years

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.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Estimates

The preparation of financial statements in conformity with U.S. 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.

NOTE 3 - CASH AND CASH EQUIVALENTS

The carrying amount of the School's deposits with financial institutions was $358, and the bank balance was $358. Of that amount, $ 358 was insured by the FDIC. Cash and cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less and certificates of deposit. Overdraft protection made available via bank financing consisted of $ 18,020 at June 30, 2006.

NOTE 4 – RECEIVABLES

There were no receivables at June 30, 2006. Prior year receivables consisted of sponsor grants.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006:

	Balance at 6/30/05	Additions	Deletions	Balance at 6/30/06
Capital Assets Being Depreciated:				
Funiture, Fixtures and Equipment	22,840			22,840
Computers	28,034			28,034
Textbooks	15,647			15,647
Total	66,521			66,521
Less Accumulated Depreciation:				
Funiture, Fixtures and Equipment	(8,552)	(4,247)		(12,799)
Computers	(21,758)	(3,744)		(25,502)
Textbooks	(7,602)	(2,235)		(9,837)
Total Accumulated Depr	(37,912)	(10,226)		(48,138)
Total Capital Assets - Net	28,609	(10,226)		18,383

NOTE 6 - RISK MANAGEMENT

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 2006, the School contracted with an insurance carrier 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.

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.

NOTE 7 - DEFINED BENEFIT PENSION PLANS

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 financial report that includes financial statements and required supplementary information. The stand-alone 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 2006, 10.57 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, 2006, 2005, and 2004 were $61,678, $43,808, and $37,891 respectively; 83 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. The unpaid contribution for fiscal year 2006 totals $10,386.

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.

NOTE 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, 2001, 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, 2001. 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 members account balance.

For the fiscal year ended June 30, 2006, 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. 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, 2006, 2005, and 2004 were $109,524, $103,842, and $77,938, respectively; 93 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

NOTE 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. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By 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, 2006, the STRS Board allocated employer contributions equal to 1 % of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled $ 7,823 for fiscal year 2006.

NOTE 8 - POSTEMPLOYMENT BENEFITS (Continued)

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2005, (the latest information available) the balance was $3.3 billion. For the year ended June 30, 2005, net health care costs paid by STRS were $254,780,000 and STRS had 115,395 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. All retirees and beneficiaries are required to pay a portion of their premiums for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below poverty level.

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, 2006, employer contributions to fund health care benefits were 3.42 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 2006, the minimum pay was established at $35,800 however, the surcharge is capped at 2 percent of each employer's SERS salaries. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled $15,111.

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, 2005 (the latest information available), were $178,221,113 and the target level was $335.2 million. At June 30, 2005, SERS had net assets available for payment of health care benefits of $267.5 million. SERS has approximately 58,123 participants currently receiving health care benefits.

NOTE 9 - EMPLOYEE BENEFITS

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.

Insurance Benefits

The School provides life and medical/surgical benefits to most employees. The School also provides dental benefits to most employees.

NOTE 10 - CONTINGENCIES

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, 2006.

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 2006, the review was completed in April, 2006. For the School, there was an insignificant variance between the amount received to date and the final payment in 2005; an insignificant variance is expected for fiscal year 2006 also. This variance will have no effect on the financial standing of the School.

NOTE 11 - RELATED PARTY TRANSACTIONS

On June 30, 2006, the School's Treasurer personally loaned $ 9,000 and the East End Riverfront Community Urban Redevelopment Corporation (EERCURC) loaned $2,000 to cover general operating expenses. There were specific loan agreements but no specified repayment schedule, and there has been no interest charged. As of June 30, 2006, the balance remained at $11,000.

NOTE 12 - OPERATING LEASE

The School leased a building form the Cincinnati Public School District. The lease payments are $4,998 a month payable in monthly installments totaling $49,980 a year, with a 2% credit allotted for the space occupied by a CPS sponsored program. The School paid $54,978 for fiscal year 2006.

NOTE 13 - MANAGEMENT PLAN TO ADDRESS NEGATIVE NET ASSETS

Management has devised a plan to address the negative net assets balance. Plans to further reduce the payroll expense, rent expense, and outside services were implemented in fiscal year 2007, and negotiations with most vendors to reduce pricing or to perform full donations of services to the organization were instituted. Fiscal year 2008 showed a significant decrease in the negative net assets balance from 2007. The negative net asset balance at June 30, 2009 is ($230,837). The School realized a cash decrease of $11,800 from June 30, 2009 to June 30, 2010. For fiscal year 2011, the School has reduced full time staff to eight employees in an effort to further reduce payroll related expenses. No significant repayment has been made on the delinquent salary and benefit amounts owed employees and/or former employees from the past three school years.

NOTE 14 - SUBSEQUENT EVENTS

In reviews of related party debt payments subsequent to June 30, 2006, payments of $1,000 towards the loan from the Treasurer were made in fiscal year 2008-2009 and none towards the loan from the East End Urban Redevelopment Corporation. No collection efforts were being pursued by the related parties.

Effective July 1, 2006, the School's sponsor became the Educational Resource Center of Ohio.

NOTE 15 - PURCHASED SERVICES

For the year ended June 30, 2006, purchased service expenses were comprised of the following:

Instruction Services	$ 49,235
Professional & Technical	10,800
Special Ed	10,500
Health	24,063
Accounting and Business	30,064
Administrative Services	56,440
Professional Development	25,102
Rent	73,972
Communications	18,897
Professional & Technical	35,721
Property Services	48,982
Printing and Reproduction	17,791
Miscellaneous	20,269
	$ 421,836

NOTE 16 – Noncompliance

Contrary to federal requirements payroll and related benefit expenditures were comingled with nonfederal expenditures during the year and detailed records were not provided for the federal expenditures resulting in the inability to determine if the federal grant money was expended for costs considered allowable under federal requirements.

Contrary to Ohio law the school was did not maintain 42% of the employee contracts.

The school did not present financial statements that comprised of all required financial statements and disclosures which resulted in adjustments to the financial statements (including footnotes) and their accounting records.

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
7030 Reading Road Suite 134
Cincinnati, Ohio 45237

To the Board of Directors:

We have audited the financial statements of East End Community Heritage Academy, Hamilton County, Ohio (the School), as of and for the year ended June 30, 2006, and have issued our report thereon dated July 2, 2010, wherein we noted the School incurred a negative net asset balance. 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 as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the School's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the School's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider findings 2006-001 and 2006-003 described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the School's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. Of the significant deficiencies described above, we believe finding 2006-001 is also material weakness.

We also noted certain internal control matters that we reported to the School's management in a separate letter dated July 2, 2010.

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 grant 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 an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2006-002 and 2006-003.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the School's management in a separate letter dated July 2, 2010.

The School's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the School's responses and, accordingly, we express no opinion on them**.**

We intend this report solely for the information and use of the management, Board of Directors, and the Community School's sponsor. We intend it for no one other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

July 2, 2010

EAST END COMMUNITY HERITAGE SCHOOL
HAMILTON COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2006

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

FINDING NUMBER 2006-001

Material Weakness

Governmental Accounting and Financial Reporting Standards Codification Standards (Codification) Section 2300.111 states governments should provide detail in the notes to the financial statements about capital assets and long-term liabilities, and **Governmental Accounting and Financial Reporting Standards Codification Standards Section 2300.118** states governments should provide detail in the notes to the financial statements about short-term debt activity during the year, even if no short-term debt is outstanding at year-end.

Governmental Accounting and Financial Reporting Standards Codification Standards Section 2300.106 states, the notes to the financial statements are essential to the fair presentation of the financial statements. They are intended to communicate information that is necessary and that cannot be included in the financial statements themselves. The notes provide necessary disclosure of material items, the omission of which would cause the financial statements to be misleading. The notes are an integral part of the financial statements and are intended to be read with the financial statements.

When designing the public office's system of internal control and the specific control activities, management should consider ensuring that accounting records are properly designed, verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records, and performing analytical procedures to determine the reasonableness of financial data. Audit adjustments have been posted to the School's financial records and are reflected in the accompanying financial statements to properly reflect the receipts, disbursements, assets and liabilities of the School. As a result, the records maintained by the School were not an accurate reflection of all moneys received and expended by the School. The following exceptions were noted:

- Opening equity on the Statement of Activity equaled the amount from the prior year report. However, opening equity on the underlying accounting system did not reflect $5,000 in Capital Assets and $66 in Accounts Payable. This resulted in the calculated ending equity on the Balance Sheet to vary from the ending equity on the statement of activities by $5,066.

- The calculation for Capital Asset Depreciation was overstated by $1,985; therefore understating capital assets by the same amount.

- The statements did not contain a liability for Accrued Wages and Benefits of $77,859.

- The accounts payable ledger contained errors that resulted in several vendors having negative balances as being due. This understated Accounts Payable balance by $11,802.

Furthermore, based on the information that we were able to obtain for EECHS's notes to the financial statements presented for audit, we also noted the following reporting deficiencies:

- We noted two loans were issued during the audit period. Based on this information the following known debt activity was recorded on the financial statements but not disclosed in the footnotes:

FINDING NUMBER 2006-001
(Continued)

Name	July 1, 2005 Balance	New Loans/Debt Issued	Payments	June 30, 2006 Balance
Stephanie Millard	$0	$9,000	$0	$9,000
East End Riverfront Community Urban Redevelopment Corporation	0	2,000	0	2,000
Total	$0	$11,000	$0	$11,000

EECHS made the necessary adjustments to the financial statements (including footnotes) and their accounting records.

It is vital that EECHS develop and present financial statements which are comprised of all required financial statements and disclosures. Failure to accurately prepare and reconcile the accounting records 1) reduces the accountability over School funds, 2) reduces the Board of Directors' ability to monitor financial activity and make informed financial decisions, 3) increases the likelihood that moneys will be misappropriated and not detected, and 4) increases the likelihood that the financial statements will be misstated.

The lack of a capital asset system and established procedures to monitor new asset additions and deletions will decrease the School's ability to safeguard its capital assets. Establishing a capital asset system and policies and procedures will improve control over School property by decreasing the risk of loss and misappropriation. Perpetual maintenance of such information will also assist the School in maintaining adequate insurance as well as provide support evidence in case of theft or fire losses.

We recommend the School accurately maintain the accounting records and adopt procedures to properly monitor the School's financial activity. Adjustments were posted to the financial statements and, where applicable, to the School's financial records to correct the above errors.

Officials' Response:

Management has instituted greater controls over the recording of items to the financial records, and more members of management are involved so that controls are more widely dispersed.

FINDING NUMBER 2006-002

Noncompliance

OMB Circular A-133, Subpart C, Section .300(a) states the auditee shall identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received.

2 C.F.R. 225 Appendix A Section (E) sets the guidelines for determining if a direct cost is considered to be allowable per the federal program. These guidelines state:

1. General. Direct costs are those that can be identified specifically with a particular final cost objective.

2. Application. Typical direct costs chargeable to Federal awards are:

   a. Compensation of employees for the time devoted and identified specifically to the performance of those awards.

   b. Cost of materials acquired, consumed, or expended specifically for the purpose of those awards.

   c. Equipment and other approved capital expenditures.

FINDING NUMBER 2006-002
(Continued)

d. Travel expenses incurred specifically to carry out the award.

2 C.F.R. 225 Appendix A Section (C)(1)(j) provides that "to be allowable under Federal awards, cost must meet the following general criteria:…be adequately documented."

34 C.F.R. 74.21(b)(2) also states that recipients' financial management systems shall provide the following: records that identify adequately the source and application of funds for federally-sponsored activities. These records shall contain information pertaining to awards, authorizations, obligations, unobligated balances, assets, outlays, income, and interest."

While the School did identify federal revenue received and non-payroll expenditures to its appropriate program and/or grant, they posted all payroll expenditures incurred during the year into one fund and did not identify which of these expenditures were related to the individual federal programs. At month end and during year-end close-out procedures, payroll allocations were made to grants by adjusting journal entries, and as part of year-end close out the School posted journal entries to allocate fringe benefit expenditures to their federal programs. Payroll and fringe benefit expenses allocated to federal programs totaled $186,160; of this amount the School could not provide documentation to support the $26,707 charged to Title I. The journal entries representing the federal payroll and fringe benefit expenditures were based on the federal revenue received for each grant. In addition time sheets and/or single funding source certification documentation to support the expenses allocated to the Title I federal program were not provided for audit. As a result of the comingling and lack of detailed records to support the payroll and fringe benefits allocations for Title I we were unable to determine if the federal grant money was expended for costs considered allowable under federal requirements. Comingling of funds can result in lack of monitoring grant activity for allowability and proper reporting.

The School is required to identify all expenditures that are specifically for the performance of Federal grant services and determine if the expenditure is allowable per 2 C.F.R. 225 Appendix A before expending money from federal grant funds. Failure to properly identify allowable costs to the federal program may lead to monies having to be paid back to the federal program and/or having monies withheld from the federal program in the future.

Had this been a Federal Single Audit the amount mentioned above for Title I could have been questioned costs.

Officials' Response:

Federal grants are primarily reimbursement grants, necessitating an initial expenditure from the general fund and a reimbursement to the general fund from the federal program. This is most easily accomplished for payroll items for some grants by the recording of a journal entry at year-end so that negative fund balances do not occur. In the future, journal entries will be recorded to reflect concurrency with the payroll reports.

FINDING NUMBER 2006-003

Noncompliance/Significant Deficiency

Ohio Rev. Code, Section 3314.03(A)(11)(d), requires that each contract entered into between a sponsor and the governing authority of a community school shall specify that the school will comply with Section 149.43 of the Ohio Rev. Code.

FINDING NUMBER 2006-003
(Continued)

Ohio Rev. Code, Section 149.43(B), states, in part, that all public records shall be promptly prepared and made available for inspection to any person at all reasonable times during regular business hours. In order to facilitate broader access to public records, public offices shall maintain public records in a manner that they can be made available for inspection in accordance with this division.

The school was unable to provide 18 out of the 43 employee contracts (42%). The school management informed us that due to the school moving several times in last three years the records had been misplaced. We reviewed payroll payments and did not find any unusual payments however, we were unable to substantiate if the 18 employees were paid the correct amounts during the audit period due to the lack of an employee contract. We recommend that the school keep employee contracts on file for reference. Failure to maintain employee contracts can cause difficulty in the School resolving potential questions or disputes related to employee compensation and responsibilities.

Officials' Response:

Greater care has been taken to ensure that all documents are transferred and maintained properly. This event has not recurred.

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
SEPTEMBER 30, 2010