EAST END COMMUNITY HERITAGE SCHOOL
HAMILTION COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2003

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
P.O. Box 9889
Cincinnati, Ohio 45209

To the Members of the Board:

We have audited the accompanying Balance Sheet of East End Community Heritage School, Hamilton County, Ohio (the School), as of June 30, 2003, and the related Statement of Revenues, Expenses, and Changes in Retained Earnings, and the Statement of Cash Flows for the year then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of East End Community Heritage School, Hamilton County, Ohio, as of June 30, 2003, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated April 21, 2004 on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Betty Montgomery

Betty Montgomery
Auditor of State

April 21, 2004

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EAST END COMMUNITY HERITAGE SCHOOL
HAMILTON COUNTY

BALANCE SHEET
AS OF JUNE 30, 2003

Assets	
Current Assets:	
Cash	$ 136,487
Intergovernmental Receivable	261,175
Sponsor Receivable	100,795
Employee Advances Receivable	3,252
Total Current Assets	501,709
Noncurrent Assets	
Furniture and Equipment (Net of accumulated depreciation)	41,422
Total Assets	$ 543,131
Liabilities and Fund Equity	
Current Liabilities:	
Account Payable	$ 15,595
Contract Payable	34,276
Accrued Wages and Benefits	85,625
Intergovernmental Payable	16,937
Lease Payable	29,729
Total Liabilities	182,162
Fund Equity:	
Retained Earnings:	
Unreserved	360,969
Total Liabilities and Fund Equity	$ 543,131

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

EAST END COMMUNITY HERITAGE SCHOOL
HAMILTON COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2003

Operating Revenues:	
State Foundation Payments	$ 942,851
Disadvantaged Pupil Impact Aid	71,796
State Special Education	56,149
Revenue from Sponsor	353,525
Other Operating Revenue	3,494
Total Operating Revenues	1,427,815
Operating Expenses:	
Salaries	743,703
Fringe Benefits	228,094
Purchased Services	423,318
Materials and Supplies	86,360
Depreciation	9,155
Other Operating Expenses	14,788
Total Operating Expenses	1,505,418
Operating Loss	(77,603)
Non-Operating Revenues	
Federal Grants	308,496
State Grants	25,078
Fundraising Income	5,580
Total Non-Operating Revenues	339,154
Net Income	261,551
Retained Earnings at Beginning of Year	99,418
Retained Earnings at End of Year	$ 360,969

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

EAST END COMMUNITY HERITAGE SCHOOL
HAMILTON COUNTY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2003

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities:	
Cash Received from State of Ohio	$ 1,066,267
Cash Received from Sponsor	252,730
Cash Payments to Employees for Services and Benefits	(978,277)
Cash Payments to Suppliers for Goods and Services	(421,907)
Other Operating Revenue	3,494
Net Cash Used for Operating Activities	(77,693)
Cash Flows from Noncapital Financing Activities:	
State and Federal Grants Received	191,855
Fundraising Income	5,580
Net Cash Provided by Noncapital Financing Activities	197,435
Cash Flows from Capital and Related Financing Activities:	
Acquisition of Capital Assets	(20,274)
Net Cash Used for Capital and Related Financing Activities	(20,274)
Net Increase in Cash and Cash Equivalents	99,468
Cash and Cash Equivalents at Beginning of Year	37,019
Cash and Cash Equivalents at End of Year	$ 136,487
Reconciliation of Operating Loss to Net Cash Provided for Operating Activities:	
Operating Loss	$ (77,603)
Adjustments To Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation	9,155
Changes in Assets and Liabilities:	
(Increase) in Sponsor Receivable	(26,017)
(Increase) in Employee Advances Receivable	(3,252)
(Decrease) in Accounts Payable	(7,079)
Increase in Contracts Payable	21,183
(Decrease) in Intergovernmental Payable	(6,463)
(Decrease) in Lease Payable	11,590
(Decrease) in Accrued Wages	793
Total Adjustments	(90)
Net Cash Used for Operating Activities	$ (77,693)

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

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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

East End Community Heritage School, Hamilton County, Ohio (the School), is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students by utilizing an approach to education involving the community. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the school.

The School was approved for operation under contract with the Cincinnati Public School District (the Sponsor) for a period of three years commencing July 1, 2000. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The School operates under the direction of an eleven-member Board of Trustees of which the majority must be community residents. The Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board of Trustees controls the School's one instructional/support facility staffed by 1 non-certificated instructional aide, 2 case managers, and 14 certificated full-time teaching personnel who provided services to a minimum of 177 students during fiscal year 2003.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School have been prepared in conformity with generally accepted accounting principles as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School also applies Financial Accounting Standards Board statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the School's accounting policies are described below.

A. Basis of Presentation

Enterprise Accounting

The School uses enterprise accounting to report on its financial activities. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

B. Measurement Focus and Basis of Accounting

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

C. Budgetary Process

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

D. Fixed Assets

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Textbooks, computers, and equipment are depreciated using the straight-line method over the estimated useful lives. The estimated useful life for textbooks and equipment is 7 years, the estimated useful life of vehicles is 5 years, and the estimated useful life for computers is 3 years. The school building is leased, and therefore is not listed as property owned.

E. Intergovernmental Revenues

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Revenue from Sponsor

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

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

G. Compensated Absences

The criteria for determining vacation, sick, and personal leave components are derived from negotiated agreements, the human resources policy manual, and State laws. Classified employees earn five to ten days of vacation per year, depending upon length of service. Sick pay, personal leave, and vacation leave benefits are not accrued as a liability at year-end. The financial statements do not include a liability for compensated absences, since none of the employees had any leave balances at year end. The School's policy for unused sick, personal, or vacation time did not provide for payment of unused leave.

3. CASH

At June 30, 2003, the School had a carrying value of deposits of $136,487 which is reported as Cash in the accompanying financial statements. The bank balance of the School's deposits was $151,987 of which $100,000 is covered through federal depository insurance (FDIC) and $51,987 which was uninsured and uncollateralized.

4. RECEIVABLES

Receivables at June 30, 2003, consisted of intergovernmental (federal grants) receivables, sponsor receivables and employee advances receivables. All intergovernmental receivables are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds. Sponsor receivables consist of money due to the School from its sponsor, Cincinnati City School District for the difference between the School's adjusted per pupil amount and the formula amount as defined by the Ohio Revised Code for each Cincinnati City School District resident full time equivalent (FTE) student enrolled at the School. Employee advances receivable consists of money due to the School from employees that had a portion of their salary advanced to them and are to have it repaid by the end of their contract. See note 14.

5. FIXED ASSETS

A summary of the fixed assets at June 30, 2003:

Equipment	$ 22,840
Computers	17,056
Textbooks	15,647
Total Fixed Assets	$ 55,543
Less: Accumulated Depreciation	(14,121)
Net Fixed Assets	$ 41,422

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 2003, the School contracted with Hartford Insurance Company for property and general liability insurance. There is a $500 deductible with a one hundred percent blanket, all risk policy.

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

B. Workers' Compensation

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

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides basic retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Plan members are required to contribute 9 percent of their annual covered salary and the School is required to contribute 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 2003, 8.17 percent of annual covered salary was the portion 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's Retirement Board. The School's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2003 and 2002 was $14,411 and $12,507, respectively; 85 percent has been contributed for fiscal year 2003 and 100 percent has been contributed for fiscal year 2002. $2,233, representing the unpaid contribution for fiscal year 2003, is recorded as a liability.

B. State Teachers Retirement System

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.

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% 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 member's account balance.

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 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% for members and 14% 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 for the fiscal year ended June 30, 2003 was $73,194; 78 percent has been contributed for fiscal year 2003. $16,223, representing the unpaid contribution for fiscal year 2003, is recorded as a liability.

8. POST EMPLOYMENT BENEFITS

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

8. POST EMPLOYMENT BENEFITS (Continued)

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School, this amount equaled $5,630.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the fund was $3.011 billion at June 30, 2002. For the year ended June 30, 2002, net health care costs paid by STRS were $354.7 million and STRS had 105,300 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 2003, the minimum pay has been established at $14,500. For the School, the amount to fund health care benefits, including surcharge, during the 2003 fiscal year equaled $10,284.

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 2002 (the latest information available), were $182,946,777 and the target level was $274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits was $335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

9. OTHER EMPLOYEE BENEFITS

A. Insurance Benefits

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

B. Employee Medical, Dental, and Vision Benefits

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

10. STATE SCHOOL FUNDING DECISION

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

10. STATE SCHOOL FUNDING DECISION (Continued)

The Supreme Court relinquished jurisdiction over the case and directed "…the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient…".

The School is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

11. CONTINGENCIES

A. Grants

The School received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2003.

B. Litigation

A suit was filed in Franklin County Commons Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the State Constitution and State laws. The effect of this suit, if any, on the School is not presently determinable. 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 for oral argument on November 18th, 2003. The effect of this suit, if any, on the East End Community Heritage School is not presently determinable.

12. SCHOOL 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 to the State, upon which state foundation funding is calculated.

As a result of this review, the "Intergovernmental Receivable" includes $4,529 that is to be refunded by the Ohio Department of Education based on the actual student full time equivalent (FTE) enrollment as determined at the end of the year, compared to the October 2002 enrollment that the School's monthly funding had been based upon. The receivable reflects that the School had been funded at a lower estimated enrollment figure through out the year than what the actual FTE figure was calculated to be at year end.

13. OPERATING LEASE

The School leases a building from the Cincinnati Public School District. The lease payments are $6,120 a month payable in ten monthly installments totaling $61,200 a year, with a 2% credit allotted for the space occupied by a CPS sponsored program. The School paid $53,978

13. OPERATING LEASE (Continued)

for fiscal year 2003 and has a payable of $29,254 at June 30, 2003. The School also leased office space in a building adjacent to the school for $200 a month beginning July 1, 2001 and ending August 31, 2002. The School did not renew this lease. However, the School did continue to pay on a month to month basis through December 2002. The School paid $1,200 during fiscal year 2003.

14. EMPLOYEE ADVANCES RECEIVABLE

The School approved a policy allowing employees to approach the Board about receiving a pay advance if a particular special circumstance warrants it. Pay advances are considered only for employees that have at least a one year tenure with the school, who are expected to fulfill the term of their contract, and the employee must pay the advance back within the end of their contract term. During fiscal year 2003, the school issued three employee advances totaling $10,200. As of June 30, 2003 the School had a receivable of $3,252.

15. FEDERAL EXEMPT STATUS

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

16. PURCHASED SERVICES

For the year ended June 30, 2003, purchased service expenses were comprised of the following:

Professional Development	$13,946
Accounting & Business Services	57,500
Nursing Services	26,906
Administrative Services	55,210
Psychological Testing	30,800
Special Education	2,040
EMIS Services	7,378
Printing and Reproduction	10,652
Postage and Delivery	1,533
Licenses and Permits	410
Bus Transportation	1,869
Building Operations	21,591
Rent	84,632
Utilities	10,905
Communications	32,821
Cafeteria Upgrades	780
Other Purchased Services	64,345
Total Purchased Services	$423,318

Auditor of State
Betty Montgomery

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

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

To the Members of the Board:

We have audited the financial statements of East End Community Heritage School, Hamilton County, Ohio (the School), as of and for the fiscal year ended June 30, 2003, and have issued our report thereon dated April 21, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that we have reported to the management of the School in a separate letter dated April 21, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings as items 2003-001 and 2003-002.

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A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, none of the reportable conditions described above are considered to be material weaknesses.

We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the School in a separate letter dated April 21, 2004.

This report is intended for the information and use of the finance committee, audit committee, management, the Board of Trustees, and is not intended to be and should not be used by anyone other than these specified parties.

Betty Montgomery

Betty Montgomery
Auditor of State

April 21, 2004

EAST END COMMUNITY HERITAGE SCHOOL
HAMILTON COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2003

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

FINDING NUMBER 2003-001

Reportable Condition – Cash Reconciliations

The May monthly cash reconciliation for the School's general checking account was not performed accurately by the School. The Treasurer reviews the monthly reconciliations however the cash reconciliations were not documented as reviewed by the Treasurer. Reconciliations are an effective tool to help management determine the completeness and accuracy of recorded transactions. Without accurate monthly bank account reconciliations, the School's internal control is significantly weakened, which could hinder the detection of errors or irregularities by the school's management in a timely manner.

We recommend that monthly bank reconciliations include a comparison of the bank balance to the general ledger balance, a list of all reconciling items and supporting documentation. We also recommend that the review of the bank reconciliation is documented by the Treasurer.

FINDING NUMBER 2003-002

Reportable Condition – Nonpayroll Disbursements

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

- There was no indication that expenditures were approved prior to purchases being made by the Treasurer or other authorized personnel for ten percent of the disbursements reviewed.

- Invoices were not initialed by the receiver before payment of the invoice. Initialing the invoice represents the good or services were received.

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

- Prior authorization of a purchase, through the use of a purchase order which documents approval by the appropriate members of management and includes appropriate coding of expenditures.

- Detailed review of the invoice and supporting documentation indicating descriptions of the goods/services received and documentation on the invoice that the goods/services were received.

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EAST END COMMUNITY HERITAGE SCHOOL
HAMILTON COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2003

Finding Number	Finding Summary	Fully Corrected ?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***:
001	Finding for recovery against $T^2=E^2$ Associates, Inc. and control weaknesses with nonpayroll disbursements.	No	Partially Corrected. The finding for recovery was corrected when $T^2=E^2$ Associates, Inc., delivered and installed the remaining 9 computers and 20 printers that the School had purchased. The control weaknesses have been issued again as finding number 2003-002.

Auditor of State
Betty Montgomery

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EAST END COMMUNITY HERITAGE SCHOOL

HAMILTON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 11, 2004