



**Auditor of State
Betty Montgomery**

EAST END COMMUNITY SCHOOL
MONTGOMERY COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Statement of Net Assets - As of June 30, 2004.....	7
Statement of Revenues, Expenses, and Changes in Net Assets – For the Year Ended June 30, 2004.....	8
Statement of Cash Flows - For the Year Ended June 30, 2003.....	9
Notes to the Basic Financial Statements.....	11
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	21

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

East End Community School
Montgomery County
111 Xenia Avenue
Dayton, Ohio 45410

To the Governing Board:

We have audited the accompanying basic financial statements of the East End Community School, Montgomery County, (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 *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 the School as of June 30, 2004, and the changes in its financial position and its cash flows for the Enterprise Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2004, the School implemented a new financial reporting model, as required by the provisions of Governmental Accounting 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 November 9, 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.

Management's Discussion and Analysis (MD&A) 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, which consisted 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.

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

Betty Montgomery
Auditor of State

November 9, 2004

**EAST END COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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

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

Financial Highlights

Key financial highlights for fiscal year 2004 are as follows:

- Total net assets increased \$92,834 in fiscal year 2004, which represents 180.01 percent increase from fiscal year 2003, as a result of significant increases in revenues from various federal, state and local grant programs, as well as increases in gifts and contributions.
- Total assets increased \$85,106 which represents a 79.29 percent increase from the prior year. The increase is primarily due to increases in cash held by the School and the intergovernmental receivables recorded at the end of the fiscal year.
- The operating loss reported for fiscal year 2004 (\$228,085) was \$74,334 less than the operating loss reported for fiscal year 2003 or a 24.58 percent.

Using this Financial Report

This financial report contains the basic financial statements of the School, as well as the Management's Discussion and Analysis and notes to the basic financial statements. The basic financial statements include a statement of net assets, statement of revenues, expenses and changes in net assets, and a statement of cash flows. As the School reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity, therefore the entity wide and the fund presentations information is the same.

Statement of Net Assets

The statement of net assets answers the question, "How did we do financially during the fiscal year?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term, using the accrual basis of accounting and the 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.

This statement reports the School's net assets, however, in evaluating the overall position and financial viability of the School, non-financial information such as the condition of the School building and potential changes in the laws governing charter schools in the State of Ohio will also need to be evaluated.

**EAST END COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**Management's Discussion and Analysis
For the Year Ended June 30, 2004
Unaudited
(Continued)**

Table 1 provides a summary of the School's net assets for fiscal year 2004 compared with fiscal year 2003.

	2004	2003
Table 1 Net Assets		
Assets:		
Current and other assets	\$174,188	\$86,947
Capital assets, net	<u>18,247</u>	<u>20,382</u>
Total Assets	<u>192,435</u>	<u>107,329</u>
Liabilities:		
Current liabilities	<u>48,051</u>	<u>55,779</u>
Net Assets:		
Invested in capital assets	18,247	20,382
Restricted	109,844	28,307
Unrestricted	<u>16,293</u>	<u>2,861</u>
Total Net Assets	<u>\$144,384</u>	<u>\$51,550</u>

Total net assets of the School increased by \$92,834 or 180.01 percent. The increase in total net assets from fiscal year 2003 is due in part to significant start-up costs associated with opening the School being recognized in the prior year as well as increases in various grants received by the School during fiscal year 2004. The \$85,106 increase in total assets is attributable to increased ending cash balances of the Schools funds (\$57,518) and increased receivable amounts at June 30, 2004 associated with various federal and state grant programs (\$29,723). Total liabilities reported at June 30, 2004 decreased by \$7,728 from the amount reported at June 30, 2003, primarily due to a decrease in the amount recognized as an intergovernmental payable associated with pension payment requirements.

As noted in Table 1 above, reported restricted and unrestricted net assets at June 30, 2004 increase significantly from amounts reported at June 30, 2003. The \$81,537 increase in restricted net assets is the result of the School receiving increased allocation for federal educational grant programs of \$64,157 for fiscal year 2004 and a \$12,500 grant from the Fordham Foundation during the year for technology improvements which were unspent at the end of the fiscal year. Unrestricted net assets increased by \$13,432 during fiscal year 2004. An increase of approximately \$45,000 in gifts and donation revenue recognized during fiscal year 2004 accounts for a majority of the increase in unrestricted net assets.

The decrease of \$2,135 in net assets invested in capital assets results from recognizing current year depreciation of capital assets (\$2,695) which was partially offset by current year capital asset acquisition in the amount of \$560.

**EAST END COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**Management's Discussion and Analysis
For the Year Ended June 30, 2004
Unaudited
(Continued)**

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2004, as well as revenue and expense comparisons to fiscal year 2003.

**Table 2
Changes in Net Assets**

	<u>2004</u>	<u>2003</u>
Operating Revenues:		
Foundation payments	\$660,761	\$406,241
Other operating revenues	13,192	499
Non Operating Revenues:		
State and Federal Grants	251,748	308,530
Local grants	12,500	-
Gifts and donations	55,750	11,000
Interest earnings	921	412
Total Revenues	<u>994,872</u>	<u>726,682</u>
Operating Expenses:		
Salaries	497,177	366,701
Fringe benefits	91,823	84,203
Building rental	54,174	38,500
Other purchased services	120,143	120,051
Materials and supplies	121,537	97,770
Depreciation	2,695	1,934
Other expenses	14,489	-
Total Expenses	<u>902,038</u>	<u>709,159</u>
Increase in net assets	92,834	17,523
Net assets, beginning of year	<u>51,550</u>	<u>34,027</u>
Net assets, end of year	<u>\$144,384</u>	<u>\$ 51,550</u>

The increase in State foundation payments noted for fiscal year 2004 is the result of an increase in the number of students enrolled in the School as well as increases in the per pupil funding amount for fiscal year 2004. During fiscal year 2003, the School received federal and state start-up grants totaling \$225,000 compared with the \$75,000 received in fiscal year 2004. Increases in allocations for various state and federal grants in fiscal year 2004 helped offset the impact of the decrease in the start-up grants. During fiscal year 2004, the School received an anonymous donation of \$45,000 and a \$12,500 grant from the Fordham Foundation which will be used to upgrade technology.

Most of the higher salary and benefit expenses reported for fiscal year 2004 results for the addition of four staff positions to accommodate the increased number of students. The \$23,767 increase in material and supplies expense is due to purchases of additional instructional, reference and library resources by the School.

**EAST END COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**Management's Discussion and Analysis
For the Year Ended June 30, 2004
Unaudited
(Continued)**

Capital Assets

At June 30, 2004 the capital assets of the School consisted of \$22,876 of equipment off-set by \$4,629 in accumulated depreciation resulted in net capital assets of \$18,247. The \$2,135 decrease in total net capital assets is due to current year depreciation expense of \$2,695 combined with the \$560 of equipment acquired during fiscal year 2004.

See Note 6 of the notes to the basic financial statements for more detailed information on the School's capital assets.

Contacting the School

This financial report is designed to provide a general overview of the finances of the East End Community School, Inc. and to show the School's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to:

East End Community School, Inc.
Attn: Treasurer
111 Xenia Avenue
Dayton, Ohio 45410
(937) 222-7355

**EAST END COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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

Assets

Current assets:

Cash and cash equivalents	\$115,612
Receivables:	
Grants	<u>54,826</u>

Total current assets 170,438

Noncurrent assets:

Security deposit	3,750
Fixed assets (net of accumulated depreciation)	<u>18,247</u>

Total noncurrent assets 21,997

Total assets 192,435

Liabilities

Current liabilities:

Accounts payable	5,682
Accrued wages payable	32,836
Intergovernmental payable	<u>9,533</u>

Total liabilities 48,051

Net assets

Invested in capital assets	18,247
Restricted	109,844
Unrestricted	<u>16,293</u>

Total net assets \$144,384

See accompanying notes to financial statements.

**EAST END COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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

Operating revenues:	
Foundation payments	\$660,761
Miscellaneous operating revenue	<u>13,192</u>
Total operating revenues	<u>673,953</u>
Operating expenses:	
Salaries	497,177
Fringe benefits	91,823
Building rental	54,174
Other purchased services	120,143
Materials and supplies	121,537
Depreciation	2,695
Other	<u>14,489</u>
Total operating expenses	<u>902,038</u>
Operating loss	<u>(228,085)</u>
Non-operating revenues:	
State and federal grant revenue	251,748
Local grant revenue	12,500
Gifts and donations	55,750
Interest earnings	<u>921</u>
Total non-operating revenues	<u>320,919</u>
Change in net assets	92,834
Net assets at beginning of year	<u>51,550</u>
Net assets at end of year	<u><u>\$144,384</u></u>

See accompanying notes to the financial statements.

**EAST END COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

Cash flows from operating activities:

Cash from State of Ohio	\$664,871
Cash payments to suppliers for goods and services	(314,196)
Cash payments to employees for services and benefits	(596,985)
Other operating revenue	13,192
	13,192

Net cash used for operating activities	(233,118)
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Cash flows from noncapital financing activities:

Federal and state subsidies	222,025
Local grants and contributions	68,250
Interest earnings	921
	921

Net cash provided by noncapital financing activities	291,196
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Cash flows from capital and related financing activities:

Cash payments for capital acquisitions	(560)
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NET INCREASE IN CASH AND CASH EQUIVALENTS	57,518
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CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	58,094
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CASH AND CASH EQUIVALENTS, END OF YEAR	115,612
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**Reconciliation of operating loss to net cash used for
for operating activities**

Operating loss	(228,085)
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Adjustments to Reconcile Operating Income
to Net Cash Used by Operating Activities:

Depreciation	2,695
Changes in assets and liabilities:	
Decrease in accounts payable	(3,853)
Increase in accrued wages payable	2,151
Increase in intergovernmental payable	(6,026)
	(6,026)

Total Adjustments	(5,033)
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Net cash used for operating activities	(\$233,118)
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See accompanying notes to the financial statements.

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**EAST END COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

East End Community School, Inc. (the School) is a state nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service. The School, which is part of the State's education program, is independent of any school district. 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 Ohio State Board of Education (Sponsor) for a period of five years commencing with fiscal year July 1, 2002 through June 30, 2007 after which, the School must apply for an additional contract with the Sponsor.

The School operates under a six-member Board of Trustees (the Board), including one parent who is recommended by the Principal. The School's Code of Regulations specifies that vacancies that arise on the Board be filled by the appointment of a successor trustee by a majority vote of the then existing trustees. The Board is responsible for carrying out the provisions of the contract with the Sponsor which includes but is not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The School has one instructional/support facility staffed by one principal and sixteen full-time and part-time personnel who provide services to approximately 110 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, provided they do not conflict with or contradict GASB pronouncements. The School has elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

The more significant of the School's accounting policies are described below.

A. Basis of presentation

Enterprise accounting is used to account for operations that are financed and operated in 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

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. 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 difference between total assets and liabilities are defined as net assets. The statement of revenues, expenses and changes in net assets present increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

**EAST END COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The accrual basis of accounting is 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 Rev. Code Section 5705, unless specifically provided in the Schools 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.

D. Cash And Cash Equivalents

All monies received by the School are maintained in a demand deposit account. For internal accounting purposes, the School segregates its cash.

E. 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 these estimates.

F. 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 \$500. The School does not have 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 the asset's life are expensed.

Depreciation of equipment is computed using the straight-line method over estimated useful lives of five to fifteen years. Improvements to capital assets are depreciated over the remaining useful lives of the related fixed assets.

G. Intergovernmental Revenues

The School currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid (DPIA) Program. These programs are recognized as operating revenues in the accounting period in which they are earned, essentially the same as the fiscal year.

Federal and state grants are recognized as non-operating revenues in the accounting period in which all eligibility requirements of the grants have been met.

**EAST END COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The School also participates in the Charter School Grant Program through the Ohio Department of Education. Under this program, the School was awarded \$75,000 during the year ended June 30, 2004. Revenue from this program is used to subsidize operating revenues during the start-up phase of the school. Amounts awarded under the above named programs for the 2004 school year totaled \$912,509.

H. Accrued Liabilities Payable

The School has recognized certain liabilities on its balance sheet relating to expenses, which are due but unpaid as of June 30, 2004, including:

Wages payable – salary payments made after year-end that were for services rendered in fiscal year 2004. Teaching personnel are paid in 24 equal installments, ending with the last pay period in July, for services rendered during the previous school year. Therefore, a liability has been recognized at June 30, 2004 for all salary payments made to teaching personnel during the month of July 2004.

Intergovernmental payable – payments for the employer's share of the retirement contribution (\$4,690), excess receipts of foundation payments (\$4,110), workers' compensation (\$257) and Medicare (\$476) associated with services rendered during fiscal year 2004, were paid in the subsequent fiscal year.

I. Federal Tax Exemption Status

The School is a non-profit organization that has been determined by the Internal Revenue Service to be exempt from federal income taxes a tax-exempt organization under Section 501 (c)(3) of the Internal Revenue Code.

J. Net Asset

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The School applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

3. 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 financial activities and requires the inclusion of the Management Discussion and Analysis section which provides a narrative introduction and overview of the financial statements to enhance the users ability to interpret the information within the statements.

**EAST END COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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

4. DEPOSITS AND INVESTMENTS

The following information classifies deposits by category of risk as defined in GASB Statement No. 3 "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements."

Deposits: At June 30, 2004, the carrying amount of the School's deposits was \$115,612 and the bank balance was \$132,798. Of the bank balance, \$100,000 was covered by federal depository insurance with the remaining \$32,798 being uninsured and uncollateralized. Although all 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 FDIC.

5. INTERGOVERNMENTAL RECEIVABLES

All receivables are considered collectible in full due to the stable condition of State programs, and the fiscal year guarantee of federal funds. Intergovernmental receivables of the School at June 30, 2004 consisted of the following federal grants in which all grant requirements had been satisfied, Title I (\$45,330), Title IV (\$850), Title V (\$580), and School Nutrition Program (\$8,066).

6. CAPITAL ASSETS

A summary of the School's capital assets at June 30, 2004 follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets being depreciated:				
Equipment	\$22,316	\$ 560	-	\$22,876
Less: accumulated depreciation on:				
Equipment	(1,934)	(2,695)	-	(4,629)
Capital assets, net	<u>\$20,382</u>	<u>(\$2,135)</u>	<u>-</u>	<u>\$18,247</u>

7. RISK MANAGEMENT

Property and Liability – The School is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the School contracted with the Erie Insurance Group for business personal property, director and officer liability and general liability insurance. Building coverage has a \$1 million dollar limit and business personal property coverage also carries a \$1 million limit, both have a \$500 deductible and an aggregate limit of \$2 million. Employer liability coverage provides \$1,000,000 per loss with a \$1,000 deductible. General liability coverage provides \$3,000,000 per occurrence and \$3,000,000 in the aggregate with no deductible. The Erie Insurance Group also provides teachers professional liability coverage of \$1 million per occurrence.

There has been no reduction in coverage from the prior year and settled claims have not exceeded the School's coverage in any of the past three years.

Employee insurance benefits – The School utilizes Anthem Blue Cross Blue Shield and Anthem Life Insurance Company to provide medical and life insurance benefits to School employees.

**EAST END COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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

8. 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 State Statute 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 43215-3476 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 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; at June 30, 2003 (the latest information currently available), 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 year ended June 30, 2004 and 2003 were \$22,942 and \$19,789, respectively; 100 percent has been contributed for fiscal years 2004 and 2003.

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.

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.

**EAST END COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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

8. DEFINED BENEFIT PENSION PLANS (Continued)

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 the statutory maximum of 10.0 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, 2004 and 2003 were \$51,178 and \$51,320, respectively; 100 percent has been contributed for fiscal years 2004 and 2003.

9. POSTEMPLOYMENT BENEFITS

State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care coverage to retirees who participated in the Defined Benefit or Combined Plans and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B Coverage. Pursuant to the Ohio Revised Code (R.C.), the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. The R.C. grants authority to STRS Ohio to provide health care coverage to benefit recipients, spouses and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14 percent of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Reserve Fund from which health care benefits are paid. For fiscal year ended June 30, 2003, the Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$2.8 billion on June 30, 2003. For the School, this amount equaled \$3,656 during the 2004 fiscal year.

For the year ended June 30, 2003, net health care costs paid by STRS Ohio were \$456,214,000. There were 108,294 eligible benefit recipients.

For SERS, the Ohio Revised Code gives the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, 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.

**EAST END COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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

9. POSTEMPLOYMENT BENEFITS (Continued)

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, the allocation rate is 5.83 percent. 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 the surcharge, was \$9,554 for fiscal year 2004.

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 annual health care expenses. Expenses for health care at June 30, 2003, were \$204,930,737 and the target level was \$307.4 million. At June 30, 2003, the Retirement System's net assets available for payment of health care benefits of \$303.6 million. The number of benefit recipients currently receiving health care benefits is approximately 50,000.

10. RESTRICTED NET ASSETS

At June 30, 2004 the School reported restricted net assets totaling \$109,844. The nature of the restrictions on these net assets is as follows:

Fordham Foundation technology grants	\$ 21,953
State specific educational program grants	2,736
Federal specific educational program grants	<u>85,155</u>
Total	<u>\$109,844</u>

11. CONTINGENCIES

A. Grants

Amounts received from grantor agencies are subject to audit and adjustment by the grantor. Any disallowed costs may require refunding to the grantor. Amounts, which may be disallowed, if any, are not presently determinable. However, in the opinion of the School, any such disallowed claims will not have a material adverse effect on the financial position of the School.

B. State Funding

The Ohio Department of Education conducts reviews of enrollment data and FTE calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The results of this review could result in state funding being adjusted. This information was not available as of the date of this report. The School does not anticipate any material adjustments to state funding for fiscal year 2005, as a result of such review.

**EAST END COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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

11. CONTINGENCIES (Continued)

C. Litigation

A 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 systems and this matter was sent to the Ohio Supreme Court. The effect of this suit, if any on the East End Community School is not presently determinable.

12. STATE SCHOOL FUNDING DECISION

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

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

13. OPERATING LEASES

The School leases its facilities from the Otterbein United Methodist Church under a year-to-year lease agreement with the Church. For the period July 1, 2003 to June 30, 2004, the monthly lease payments totaled \$54,174. A security deposit of \$3,750 remains on deposit with the Church as collateral against any property damage. Rent payments are expected to remain the same for fiscal year 2005.

The School entered into a three-year operating lease for the use of copier equipment during fiscal year 2003. During March 2004, the School leased an additional copier and renewed the lease agreement for an additional five years. Monthly minimum lease payments are \$561. Total lease payments for fiscal year 2004 were \$5,491. Lease payments are expected to remain the same for the remaining term of the lease.

14. OTHER PURCHASED SERVICES

During the year ended June 30, 2004, other purchased service expenses for services rendered by various vendors were as follows:

Professional and technical services	\$ 69,507
Communications & networking services	4,522
Travel & meeting expenses	1,035
Contractual fiscal services	34,000
Property Services	2,459
Pupil transportation	2,000
Other	6,620
	<u>\$120,143</u>

**EAST END COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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

15. FISCAL SERVICES

The School entered into a contract with PACE School Resource Center (SRC) to provide treasurer and financial management services for a twelve month period beginning July 1, 2003, for a one time fees of \$10,000 and a monthly fee of \$2,000. SRC was subsequently separated from PACE and was renamed Keys to Improving Dayton Schools, Inc. without any further changes to services or cost.

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**Auditor of State
Betty Montgomery**

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

East End Community School
Montgomery County
111 Xenia Avenue
Dayton, Ohio 45410

We have audited the financial statements of the business-type activity of the East End Community School, Montgomery County, (the School), as of and for the year ended June 30, 2004, which comprise the School's basic financial statements and have issued our report thereon dated June 30, 2004 wherein we noted the School implemented a new financial reporting model, as required by the provisions of Governmental Auditing Standard Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for the State and Local Governments*. 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 tested its compliance with certain provisions of laws, regulations, contracts and grants, 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 we must report under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the School's management in a separate letter dated November 9, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over financial reporting that does not require inclusion in this report that we have reported to the School's management in a separate letter dated November 9, 2004.

East End Community School
Montgomery County
Independent Accountants' Report on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

This report is intended solely for the information and use of the finance committee, management, the Governing Board, and is not intended to be and should not be used by 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

November 9, 2004



**Auditor of State
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

**EAST END COMMUNITY SCHOOL
MONTGOMERY 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 7, 2004**