# *EAST END COMMUNITY SCHOOL, INC.*
# *MONTGOMERY COUNTY, OHIO*

## *AUDIT REPORT*

***FOR THE YEAR ENDED JUNE 30, 2007***

***Charles E. Harris and Associates, Inc.***
**Certified Public Accountants and Government Consultants**

Mary Taylor, CPA
Auditor of State

Board of Trustees
East End Community School
111 Xenia Avenue
Dayton, Ohio 45410

We have reviewed the *Report of Independent Accountants* of the East End Community School, Montgomery County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2006 through June 30, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The East End Community School is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 23, 2008

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**EAST END COMMUNITY SCHOOL, INC.**
**MONTGOMERY COUNTY, OHIO**
**For the Years Ending June 30, 2007**

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***Charles E. Harris & Associates, Inc.***
*Certified Public Accountants*

# REPORT OF INDEPENDENT ACCOUNTANTS

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

The Board of Trustees:

We have audited the accompanying basic financial statements of the East End Community School, Inc. (the School) as of and for the year ended June 30, 2007, 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 provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2007, 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.

The management's discussion and analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

In accordance with *Government Auditing Standards,* we have also issued a report dated December 14, 2007 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

***Charles E. Harris & Associates, Inc.***
December 14, 2007

The discussion and analysis East End Community School, Inc.'s (the School) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2007. 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 2007 are as follows:

- Total net assets of the School increased $297,044 in fiscal year 2007. Ending net assets of the School were $437,445 at June 30, 2007 compared with $140,401 at June 30, 2006.

- Total assets increased $293,673 from the prior year due primarily to the higher cash balance on hand at year end as well as increases in the amount of intergovernmental grants the School was entitled to receive at the end of fiscal year 2007.

- The School's operating loss for fiscal year 2007 was $116,711 compared with an operating loss of $316,954 reported for the prior year. An increase in student enrollment plus a higher per pupil funding amount resulted in foundation revenues increasing by $361,779 while operating expenses increased by only $161,348 over those reported for the prior year.

## 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.

Table 1 provides a summary of the School's net assets for fiscal year 2007 compared with fiscal year 2006.

TABLE 1
NET ASSETS

| | 2007 | 2006 |
|---|---|---|
| Assets: | | |
| Current and other assets | $ 509,595 | $ 211,773 |
| Capital assets, net | 13,685 | 17,834 |
| Total Assets | 523,280 | 229,607 |
| Liabilities: | | |
| Current liabilities | 85,835 | 89,206 |
| Total Liabilities | 85,835 | 89,206 |
| Net Assets: | | |
| Invested in capital assets | 13,685 | 17,834 |
| Restricted | 70,390 | 88,504 |
| Unrestricted | 353,370 | 34,063 |
| Total Net Assets | $ 437,445 | $ 140,401 |

The total net assets of the School increased $297,044 during fiscal year 2007. For fiscal year 2007, the School reported an increase in the number of students enrolled by over 60 compared with the prior year. The higher student count plus the increased per pupil funding amount resulted in foundation revenues increasing by $361,779 compared to prior years. Despite the higher student enrollment, management was able to effectively control expenses incurred during the year which increased by $161,348. These factors significantly reduced the operating loss reported by the School during the year and when factored with the increase in federal and state grant revenues comprise the vast majority of the increases in net assets.

As noted in Table 1 above, total current and other assets of the School increased by $297,822 from those reported at June 30, 2006. The increase is primarily due to the ending cash balance at June 30, 2007 being $235,415 more than that reported at the end of the last fiscal year, as well as an increase of $68,436 reported in the intergovernmental grants receivable amount. The increase in the cash balance represents the difference between the cash expenditures paid during the year versus cash receipts. The increase in intergovernmental grants was the result of the School not drawing down all the grant funds it was allocated before the end of the year.

Total liabilities of the School decreased by $3,371 or 3.8 percent, compared with the liabilities reported for fiscal year 2006. A decrease in intergovernmental payables reported at the end of the current fiscal year compare with those reported at the end of the prior fiscal year, account for this decrease.

Restricted net assets, those net assets which are required to be spent on specific programs, decreased by $18,114 while the unrestricted net assets, those which management may allocate in any legally permitted manner it deems necessary, increased by $319,307 over the fiscal year 2006 amount. The increase in unrestricted net assets occurred due the reasons discussed above. Net assets invested in capital assets decreased by $4,149 due to current year depreciation expense.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2007, as well as revenue and expense comparisons to fiscal year 2006.

TABLE 2
CHANGE IN NET ASSETS

| | 2007 | 2006 |
|---|---|---|
| Operating Revenues: | | |
| Foundation payments | $ 1,464,590 | $ 1,102,811 |
| Other operating revenues | 4,536 | 4,724 |
| Non Operating Revenues: | | |
| State and federal grants | 413,476 | 172,349 |
| Interest earnings | 279 | 243 |
| Total Revenues | 1,882,881 | 1,280,127 |
| Operating Expenses: | | |
| Salaries | 777,458 | 784,158 |
| Fringe Benefits | 218,208 | 184,705 |
| Building rental | 75,629 | 70,902 |
| Contracted fiscal services | 52,567 | 35,500 |
| Other purchased services | 372,536 | 262,972 |
| Materials and supplies | 43,864 | 78,585 |
| Depreciation | 4,149 | 4,151 |
| Other expenses | 41,426 | 3,516 |
| Total Expenses | 1,585,837 | 1,424,489 |
| Change in net assets | 297,044 | (144,362) |
| Net assets, beginning of year | 140,401 | 284,763 |
| Net Assets, end of year | $ 437,445 | $ 140,401 |

As shown in Table 2 above, state foundation revenue increased by 32.8 percent or $361,779 over the amount received during the prior fiscal year. As previously mentioned, the increase in student enrollment at the School plus the increase in per pupil funding amounts for fiscal year 2007 compared with the prior year accounts for the increased foundation revenues. Increases in federal and state grant programs are due to additional programs, such as the after school program, being instituted during the current year as well as increases in the allocation of other grants to the School.

Total expenses of the School reported the fiscal year were $161,348 more than those reported for the fiscal year 2006. Of this amount, $109,564 was related to increases in purchased services while an additional $33,503 was related to increase costs of providing employees with retirement and health care benefits. Total expenses of the School increased by 11.3 percent over those reported for the prior fiscal year. Despite the increase in student enrollment, the School was able to effectively report the same personnel costs as those reported for the prior year.

**Capital Assets**

At June 30, 2007, the capital assets of the School consisted of $30,156 of equipment offset by $16,471 in accumulated depreciation resulted in net capital assets of $13,685. There were no purchases which met the School's capitalization threshold made during the year and depreciation expense for the year ended June 30, 2007 was $4,149.

See Note 4 of the notes to the basic financial statements for additional 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., 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, INC.**

Statement of Net Assets

June 30, 2007

| | |
|---|---|
| Assets | |
| Current assets: | |
| Cash and cash equivalents | $ 437,409 |
| Intergovernmental receivables | 68,436 |
| Total current assets | 505,845 |
| Noncurrent assets: | |
| Security deposit | 3,750 |
| Capital assets (net of accumulated depreciation) | 13,685 |
| Total noncurrent assets | 17,435 |
| Total assets | 523,280 |
| Liabilities | |
| Current liabilities: | |
| Accounts payable | 20,614 |
| Accrued wages payable | 60,127 |
| Intergovernmental payable | 5,094 |
| Total liabilities | 85,835 |
| Net assets | |
| Invested in capital assets | 13,685 |
| Restricted | 70,390 |
| Unrestricted | 353,370 |
| Total net assets | $ 437,445 |

See accompanying notes to the financial statements.

**EAST END COMMUNITY SCHOOL, INC.**

Statement of Revenues, Expenses and Changes in Net Assets

Year Ended June 30, 2007

| | |
|---|---|
| Operating revenues: | |
| Foundation payments | $ 1,464,590 |
| Miscellaneous operating revenue | 4,536 |
| Total operating revenues | 1,469,126 |
| Operating expenses: | |
| Salaries | 777,458 |
| Fringe benefits | 218,208 |
| Building rental | 75,629 |
| Contracted fiscal services | 52,567 |
| Other purchased services | 372,536 |
| Materials and supplies | 43,864 |
| Depreciation | 4,149 |
| Other | 41,426 |
| Total operating expenses | 1,585,837 |
| Operating loss | (116,711) |
| Non-operating revenues: | |
| State and federal grant revenue | 413,476 |
| Interest earnings | 279 |
| Total non-operating revenues | 413,755 |
| Change in net assets | 297,044 |
| Net assets at beginning of year | 140,401 |
| Net assets at end of year | $ 437,445 |

See accompanying notes to the financial statements.

**EAST END COMMUNITY SCHOOL, INC.**

Statement of Cash Flows

Year Ended June 30, 2007

| | |
|---|---|
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | |
| Cash flows from operating activities: | |
| Cash from State of Ohio | $ 1,464,590 |
| Cash payments to suppliers for goods and services | (580,116) |
| Cash payments to employees for services and benefits | (998,914) |
| Other operating revenue | 4,536 |
| Net cash used for operating activities | (109,904) |
| Cash flows from noncapital financing activities: | |
| Federal and state subsidies | 345,040 |
| Net cash provided by noncapital financing activities | 345,040 |
| Cash flows from investing activities: | |
| Interest earnings | 279 |
| Net cash provided by investing activities | 279 |
| Net increase in cash and cash equivalents | 235,415 |
| Cash and cash equivalents, beginning of year | 201,994 |
| Cash and cash equivalents, ending of year | $ 437,409 |
| Reconciliation of operating loss to net cash used for for operating activities | |
| Operating loss | $ (116,711) |
| Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities: | |
| Depreciation | 4,149 |
| Changes in assets and liabilities: | |
| Decrease in prepaid rent | 6,029 |
| Decrease in accounts payable | (23) |
| Increase in accrued wages payable | 3,605 |
| Decrease in intergovernmental payable | (6,953) |
| Total Adjustments | 6,807 |
| Net cash used for operating activities | $ (109,904) |

See accompanying notes to the financial statements.

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. During fiscal year 2006, the Sponsor contract was transferred to the Thomas B. Fordham Foundation which acted as the School's Sponsor for fiscal year 2007.

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 twenty-three full-time and part-time personnel who provide services to approximately 220 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; however the School has elected not to follow any FASB statements or interpretations 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 net total assets.

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 capital assets.

G. Intergovernmental revenues

The School currently participates in the State Foundation Program. The foundation funding is recognized as operating revenues in the accounting period in which they are earned, essentially the same as the fiscal year. Federal and state educational grants are recognized as non-operating revenues in the accounting period in which all eligibility requirements of the grants have been met.

Intergovernmental revenues associated with the Foundation Program totaled $1,464,590 and revenues associated with specific education grants from the state and federal governments totaled $413,476 during fiscal year 2007.

H. Accrued liabilities payable

The School has recognized certain liabilities on its statement of net assets relating to expenses, which are due but unpaid as of June 30, 2007, including:

Wages Payable – salary payments made after year-end that were for services rendered in rendered in fiscal year 2007. 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, 2007 for all salary payments made to teaching personnel during the month of July 2007.

Intergovernmental payable – payment for the employer's share of the retirement contribution ($3,752), workers' compensation ($470) and Medicare ($872) associated with services rendered during fiscal year 2007 that were paid in the subsequent fiscal year.

I. Operating and non-operating revenues and expenses

Operating revenues are those revenues that are directly generated by the School's primary mission. For the School, operating revenues include foundation payments (basic aid and disadvantaged pupil impact aid) received from the State of Ohio. Operating expenses are necessary costs incurred to support the School's primary mission, including depreciation.

Non-operating revenues and expenses are those that are not generated directly by the School's primary mission. Various state and federal grants, as well as interest earnings, comprise the non-operating revenues of the School.

J. 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.

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation less any outstanding capital related debt. 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. Deposits and Investments:

The School does not have a policy addressing custodial credit risk for its deposits. At June 30, 2007, the carrying amount of the School's deposits was $437,409 and the bank balance was $462,339. $362,339 of the bank deposits was 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.

4. Capital Assets:

A summary of the School's capital assets at June 30, 2007, follows:

| | | Beginning Balance | Additions | Deletions | | Ending Balance |
|---|---|---|---|---|---|---|
| Capital assets being depreciated: | | | | | | |
| Equipment | $ | 30,156 | - | - | $ | 30,156 |
| Less: accumulated depreciation on: | | | | | | |
| Equipment | | (12,322) | (4,149) | - | | (16,471) |
| Capital assets, net | $ | 17,834 | (4,149) | - | $ | 13,685 |

5. 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 2007, the School contracted with the Erie Insurance Group for business personal property, director and officer liability and general insurance. Building coverage has a $1 million 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 million per loss with a $1,000 deductible. General liability coverage provides $3 million per occurrence and $3 million in the aggregate with no deductible. The Erie Insurance Group also provides teachers professional liability 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.

6. Defined Benefit Pension Plans:

A. School Employees Retirement System

The School contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at ohsers.org.

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 2007, 10.58 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, 2007, 2006, and 2005 were $44,676, $38,782, and $23,575, respectively; 100 percent has been contributed for all fiscal years.

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, by calling (614) 227-4090, or by visiting the STRS Ohio web site at www.strsoh.org.

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 divided by 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 of 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, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005, were $78,066, $76,931, and $54,178, respectively; 100 percent has been contributed for all fiscal years.

7. Postemployment Benefits

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and partial 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 Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory 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. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School, this amount equaled $5,576 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) the balance in the Fund was $3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS Ohio were $282,743,000 and STRS Ohio had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

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, 2007, 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 2007, the minimum pay was established at $35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled $14,666.

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 projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available) were $158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of $295.6 million. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claims costs. SERS has 59,492 participants eligible to receive health care benefits.

8. Restricted Net Assets:

At June 30, 2007 the School reported restricted net assets totaling $70,390. The nature of the net asset restrictions are as follows:

| | | |
|---|---|---|
| Fordham Foundation technology grants | $ | 4,814 |
| State specific educational program grants | | 29,888 |
| Federal specific educational program grants | | 35,688 |
| Total | $ | 70,390 |

9. 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 2007, as a result of such review.

C. Litigation

A suit was filed in U.S. District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The case is pending. The effect of this suit, if any, on the School is not presently determinable.

10. 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 of July 1, 2006 to June 30, 2007, the monthly lease payments totaled $75,629. A security deposit of $3,750 remains on deposit with the Church as collateral against property damage. Rent payments are expected to remain the same for fiscal year 2007.

11. Other Purchased Services:

During the fiscal year ended June 30, 2007, other purchased service expenses for services rendered by various vendors were as follows:

| | | |
|---|---|---|
| Professional and technical services | $ | 218,341 |
| Property services | | 15,884 |
| Communications | | 6,507 |
| Contracted craft or trade services | | 124,948 |
| Pupil transportation | | 446 |
| Meetings and Travel | | 2,437 |
| Utilities | | 3,973 |
| | $ | 372,536 |

12. Contracted Fiscal Services:

The School is a party to a management agreement with Keys to Improving Dayton Schools (KIDS) School Resource Center, which is an education consulting and management company. The Management Agreement's term is for a twelve month period beginning each July 1st and may be terminated by either party, with or without cause, by giving the other party ninety days written notice to terminate. The Agreement provides that KIDS School Resource Center will perform the following functions for the School:

1. Standard Treasurer Services, including general ledger entries, basic record keeping required documents for state and federal governments, payroll processing, and basic accounting reports to Director and Board.

2. Basic Financial Management Services, including all of the functions in Standard Treasurer Services Package plus SRC Financial Management Support Services, ongoing budgeting, accounting, purchasing, financial reporting, cash flow analysis, and resource call support.

The total fee paid for these services during fiscal year 2007 was $52,567.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

To the Board of Trustees:

We have audited the financial statements of the East End Community School, Inc. (the "School") as of and for the year ended June 30, 2007, which collectively comprise the School's basic financial statements and have issued a report thereon dated December 14, 2007. 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.

Internal Controls 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 auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of 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 generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School's internal control.

Our consideration of 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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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, grants agreements and other matters, 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.*

We noted certain matters that we have reported to management of the School in a separate letter dated December 14, 2007.

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

***Charles E. Harris & Associates, Inc.***
December 14, 2007

## STATUS OF PRIOR AUDIT'S CITATIONS AND RECOMMENDATIONS

The prior audit report, as of June 30, 2006, reported no material citations or recommendations.

Mary Taylor, CPA
Auditor of State

**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**
**FEBRUARY 5, 2008**

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