



Dave Yost • Auditor of State

**EAST END COMMUNITY HERITAGE SCHOOL
HAMILTON COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Statement of Net Assets As of June 30, 2011.....	7
Statement of Revenues, Expenses and Changes in Net Assets For the Fiscal Year Ended June 30, 2011.....	8
Statement of Cash Flows For the Fiscal Year Ended June 30, 2011.....	9
Notes to the Basic Financial Statements	11
Independent Accountants' Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Required by <i>Government Auditing Standards</i>	21
Schedule of Findings.....	23
Schedule of Prior Year Findings	27
Independent Accountants' Report on Applying Agreed-Upon Procedures.....	29

This page intentionally left blank.



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Directors:

We have audited the accompanying basic financial statements of East End Community Heritage School, Hamilton County, Ohio (the School), as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the East End Community Heritage School, Hamilton County, Ohio, as of June 30, 2011, and the changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 13 to the financial statements, The School has suffered recurring losses from operations and has a net asset deficiency of \$215,919. Note 13 describe Management's plans regarding these matters. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2012, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include Management's discussion and analysis, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the School's basic financial statements taken as a whole. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "Y" and "O".

Dave Yost
Auditor of State

November 7, 2012

EAST END COMMUNITY HERITAGE SCHOOL
Hamilton County
Managements Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)

The discussion and analysis of the East End Community Heritage School (the School) financial performance provides an overall review of the School's financial activities for the year ended June 30, 2011. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the notes to the basic financial statement and financial statements to enhance their understanding of the School's financial performance.

Financial Highlights

- For fiscal year 2011 assets were less than liabilities by \$215,919 which is an improvement over fiscal year 2010 by \$84,332.
- The School derived 99.8 percent of their revenues through federal and state programs.
- Salaries and benefits only accounted for 51.99 percent of the \$793,086 in expenses for fiscal year 2011 as the School moved to more professional services contracts.
- The School saw the cash balance decrease by \$2,553 from fiscal year 2011.

Using this Annual Financial Report and Overview of Financial Statements

This annual report consists of three components: the management discussion and analysis, the basic financial statements and notes to those statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

The statement of net assets presents information on all the School's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the School is improving or deteriorating.

The statement of revenues, expenses and changes in net assets presents information showing how the School's net assets changed during the most recent fiscal year.

The statement of cash flows presented the sources and uses of the School's cash and how it changed during the most recent fiscal year.

EAST END COMMUNITY HERITAGE SCHOOL
Hamilton County
 Managements Discussion and Analysis
 For the Fiscal Year Ended June 30, 2011
 (Unaudited)

Table 1 provides a summary of the School’s net assets for fiscal year 2010 compared to fiscal year 2011.

Table 1
Net Assets

	2010	2011	Change
Assets			
Current assets	\$23,460	\$43,426	\$19,966
Capital assets, net	10,800	5,400	(5,400)
<i>Total assets</i>	<u>34,260</u>	<u>48,826</u>	<u>14,566</u>
Liabilities			
Current liabilities	334,511	264,745	(69,766)
<i>Total liabilities</i>	<u>334,511</u>	<u>264,745</u>	<u>(69,766)</u>
Net Assets			
Invested in capital assets	10,800	5,400	(5,400)
Unrestricted	(311,051)	(221,319)	89,732
<i>Total net assets</i>	<u><u>(\$300,251)</u></u>	<u><u>(\$215,919)</u></u>	<u><u>\$84,332</u></u>

The School saw assets increase by \$14,566. The School had a receivable from the School Employees Retirement System for overpayments for the pension obligations. The current liabilities decreased as the School used the additional funds received to pay down the vendor obligations and catch-up on significant past accrued wages.

EAST END COMMUNITY HERITAGE SCHOOL
Hamilton County
 Managements Discussion and Analysis
 For the Fiscal Year Ended June 30, 2011
 (Unaudited)

Table 2 shows the change in net assets for the year ended 2010 compared to fiscal year 2011.

Table 2
Change in Net Assets

	<u>2010</u>	<u>2011</u>	<u>Change</u>
Revenues			
Operating revenues:			
Foundation payments	\$513,500	\$591,471	\$77,971
Special education	32,785	30,645	(2,140)
Other operating revenues	2,283	2,026	(257)
Non-operating revenues:			
Federal and state grants	194,253	253,276	59,023
Total revenues	<u>742,821</u>	<u>877,418</u>	<u>134,597</u>
Expenses			
Operating expenses:			
Salaries	400,625	335,789	(64,836)
Fringe benefits	74,344	76,535	2,191
Purchased services	313,954	357,407	43,453
Materials and supplies	17,182	17,723	541
Depreciation	5,400	5,400	0
Other expenses	730	232	(498)
Total Expenses	<u>812,235</u>	<u>793,086</u>	<u>(19,149)</u>
Change in Net Assets	(69,414)	84,332	<u>\$153,746</u>
Beginning Net Assets	<u>(230,837)</u>	<u>(300,251)</u>	
Ending Net Assets	<u><u>(\$300,251)</u></u>	<u><u>(\$215,919)</u></u>	

The School saw a significant increase in the revenues from 2010 to 2011 due to increased state foundation program revenue (Foundation Payment and Special Education Funding) as the State increased the funding per student and the School's student count remained constant through the year. Federal and state grant revenues were also more than the prior year in part to the additional stimulus funding the School received in 2011. The School decreased expenses slightly from the prior year mainly through reductions in staff as described in note 13 by moving some of those responsibilities to contracted services.

EAST END COMMUNITY HERITAGE SCHOOL
Hamilton County
Managements Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)

Capital Assets

At the end of 2011, the School had \$5,400 (net of \$60,101 in accumulated depreciation) invested in furniture and equipment. For more information on the School's capital assets refer to note 5 of the notes to the financial statements.

Debt

The School had a short term loan payable \$11,688 at June 30, 2011. For more information on the School's debt refer to note 6 of the notes to the financial statements.

Current Financial Issues

The School has had the same finance professional on staff for almost two years which will aid in the improvements in the quality of financial records and strengthen internal controls. During the 2010 fiscal year, the School moved its location to share a facility with another school, which subsequently closed. The closing of the other school allowed East End to bring in additional students, which was the key to the increased funding. The School still is trying to add more students to the facility. The School is working on paying back former employees which is a significant cash draw over the next year.

Contacting the School's Financial Management

This financial report is designed to provide a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional information contact the Superintendent of the School, East End Community Heritage School, 7030 Reading Road, Suite 100, Cincinnati, Ohio 45237.

**EAST END COMMUNITY HERITAGE SCHOOL
HAMILTON COUNTY
STATEMENT OF NET ASSETS**

AS OF JUNE 30, 2011

Assets:

Current assets:

Cash and cash equivalents	\$ 2,647
Intergovernmental receivable	40,779
Total current assets	<u>43,426</u>

Noncurrent assets:

Capital assets, net	<u>5,400</u>
Total noncurrent assets	<u>5,400</u>

Total Assets 48,826

Liabilities:

Current liabilities

Accounts payable	87,702
Accrued wages and benefits payable	143,377
Intergovernmental payable	21,978
Short term loan payable	<u>11,688</u>
Total current liabilities	<u>264,745</u>

Total Liabilities 264,745

Net Assets:

Invested in capital assets, net of related debt	5,400
Unrestricted	<u>(221,319)</u>

Total net assets \$ (215,919)

See accompanying notes to the basic financial statements

**EAST END COMMUNITY HERITAGE SCHOOL
HAMILTON COUNTY
STATEMENT OF REVENUS, EXPENSES AND CHANGES IN NET ASSETS**

For the Fiscal Year Ended June 30, 2011

Operating Revenues:	
Foundation payments	\$ 591,471
Special Education	30,645
Other operating revenues	<u>2,026</u>
Total operating revenues	<u>624,142</u>
Operating Expenses:	
Salaries	335,789
Fringe benefits	76,535
Purchased services	357,407
Materials and supplies	17,723
Depreciation	5,400
Other operating expenses	<u>232</u>
Total operating expenses	<u>793,086</u>
Operating Loss	<u>(168,944)</u>
Non-Operating Revenues and Expenses:	
Federal grants	227,689
State grants	<u>25,587</u>
Total non-operating revenues and expenses	<u>253,276</u>
Change in net assets	84,332
Net assets at beginning of year	<u>(300,251)</u>
Net assets at end of year	<u><u>\$ (215,919)</u></u>

See accompanying notes to the basic financial statements

**EAST END COMMUNITY HERITAGE SCHOOL
HAMILTON COUNTY
STATEMENT OF CASH FLOWS**

For the Fiscal Year Ended June 30, 2011

Increase (Decrease) in cash and cash equivalents

Cash flows from operating activities:

Cash received from State of Ohio - Foundation	\$ 622,116
Cash received from other operating revenues	2,026
Cash payments for personal services	(427,901)
Cash payments for contract services	(406,818)
Cash payments for supplies and materials	(12,962)
Cash payments for other expenses	(414)
Net cash used by operating activities	<u>(223,953)</u>

Cash flows from noncapital financing activities:

Cash received from state and federal grants	237,082
Principal paid on debt obligations	(15,682)
Net cash provided by noncapital financing activities	<u>221,400</u>

Net change in cash and cash equivalents	(2,553)
Cash and Cash Equivalents at beginning of year	<u>5,200</u>
Cash and Cash Equivalents at end of year	<u><u>2,647</u></u>

Reconciliation of operating loss to net cash used by operating activities:

Operating loss	(168,944)
Adjustments to reconcile operating loss to net cash provided for operating activities:	
Depreciation	5,400
Change in assets and liabilities:	
Decrease in employee receivable	4,761
Increase in Intergovernmental receivable	(11,086)
Decrease in accounts payable	(49,390)
Decrease in accrued wages and benefits	(20,171)
Increase in intergovernmental payable	15,477
	<u>15,477</u>

Net cash used by operating activities	<u><u>\$ (223,953)</u></u>
---------------------------------------	----------------------------

See accompanying notes to the basic financial statements

This page intentionally left blank.

EAST END COMMUNITY HERITAGE SCHOOL

Hamilton County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

1. DESCRIPTION OF THE REPORTING ENTITY

East End Community Heritage School, Hamilton County, Ohio (the School), is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students by utilizing an approved evaluation involving the community. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School. The School qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the school's tax exempt status.

The School was approved for operation under contract with the Cincinnati Public School District (the Sponsor) for a period of five years commencing July 1, 1999. The contract was extended for fiscal year 2006. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. In fiscal year 2006, the School signed a contract with a new sponsor, Educational Resource Consultants of Ohio.

The School operates under the direction of an eleven-member Board of Trustees of which the majority must be community residents. The Board of Trustees is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board of Trustees controls the School's one instructional/support facility staffed by 6 certified full time teaching personnel and 2 administrators who provide services to 94 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 a governmental nonprofit organization. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. However, the School has elected not to apply FASB statements and interpretations after November 30, 1989. Following are the more significant of the School's accounting policies.

A. Basis of Presentation

The School's basic financial statements consist of a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows. The School uses enterprise accounting to track and report on its financial activities. Enterprise fund reporting focuses on the determination of the change in net assets, financial position and cash flows.

EAST END COMMUNITY HERITAGE SCHOOL

Hamilton County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The statement of revenues, expenses, and changes in net assets present increases (e.g. revenues) and decreases (e.g. expenses) in net total assets. The statement of cash flows reflects how the School finances and meets its cash flow needs.

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 contract between the School and 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 Investments

All monies received by the School are accounted for by the School's treasurer. All cash received is maintained in accounts in the School's name. Monies for the School are maintained in bank accounts or temporarily used to purchase short-term investments.

For presentation on the financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the School are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

E. Capital Assets and Depreciation

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

EAST END COMMUNITY HERITAGE SCHOOL

Hamilton County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

Capital Assets are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Furniture and Equipment	5
Computers	3
Textbooks	7

F. Intergovernmental Revenues

The School currently participates in the State Foundation Program and State Special Education Program. Revenues from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements are met.

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

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

Amounts awarded under grants and entitlements for the year ended June 30, 2011 totaled \$875,392.

G. Net Assets

Net assets represent the difference between assets and liabilities. Invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisitions, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The School presently has no restricted net assets.

H. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the certain reported amounts disclosure. Accordingly, actual results may differ from those estimates.

EAST END COMMUNITY HERITAGE SCHOOL

Hamilton County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the School, these revenues are primarily the State Foundation program, the State Special Education program and other miscellaneous revenues earned by the School. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the School. Revenues and expenses not meeting this definition are reported as non-operating.

J. Short Term Loan Payable

The School has received advances from several key employees/vendors for various operating activities. The School has no repayment plan in place to pay back the remaining loans and only accounts for the payments when made. The School received a \$15,000 short term loan from Specialists in Education Excellence during 2010 that was repaid during fiscal year 2011.

3. DEPOSITS AND INVESTMENTS

At June 30, 2011, the carrying amount of the School's deposits was \$2.647 and the bank balance was \$10,074. The entire bank balance was covered by Federal Depository Insurance Corporation (FDIC).

Custodial credit risk is the risk that in the event of bank failure, the School will not be able to recover the deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at the Federal Reserve Banks or at member banks of the federal reserve system, in the name of the respective depository and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the School.

The School had no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secure.

EAST END COMMUNITY HERITAGE SCHOOL

Hamilton County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

4. RECEIVABLES

The School also reported intergovernmental receivables for amounts overpaid to School Employees Retirement System (\$24,314), 2011 Race to the Top Grant fund (\$3,837), Title I ARRA fund (\$7,628) and School Improvement funds (\$5,000).

5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011:

	Balance 6/30/10	Additions	Deductions	Balance 6/30/11
Capital Assets Being Depreciated				
Furniture, Fixtures and Equipment	\$5,620	\$0	\$0	\$5,620
Computers	44,234	0	0	44,234
Textbooks	15,647	0	0	15,647
Total Capital Assets Being Depreciated	<u>65,501</u>	<u>0</u>	<u>0</u>	<u>65,501</u>
Less Accumulated Depreciation				
Furniture, Fixtures and Equipment	(5,620)	0	0	(5,620)
Computers	(28,034)	(5,400)	0	(33,434)
Textbooks	(21,047)	0	0	(21,047)
Total Accumulated Depreciation	<u>(54,701)</u>	<u>(5,400)</u>	<u>0</u>	<u>(60,101)</u>
Capital Assets, Net	<u>\$10,800</u>	<u>(\$5,400)</u>	<u>\$0</u>	<u>\$5,400</u>

6. DEBT

At June 30, 2011, the School had a short term loan payable from key employees of the School. The School received \$15,000 during 2010 from Specials in Education and repaid the loan during 2011. The School also repaid loans to key employees totaling \$682 during 2011. The amount due at June 30, 2011 is \$11,688. The School is evaluating the best way to repay the loan obligations to the various employees but no repayment plan is currently in place.

EAST END COMMUNITY HERITAGE SCHOOL

Hamilton County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

7. 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 2011, the School contracted with an insurance carrier for general liability, property, and for educational errors and omissions insurance. The policy's general aggregate, personal and advertising injury, and each occurrence limit is \$1,000,000 with a \$500 deductible. There has been no reduction in coverage from the prior year and settled claims have not exceeded the School's coverage in the past three years.

B. Worker's 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.

8. DEFINED BENEFIT PENSION PLANS

A. School Employee Retirement System

Plan Description - The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer 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.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2011, 11.81 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 by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2011, 2010, and 2009 were \$1,885, \$13,840, and \$11,260 respectively; 100 percent for fiscal years 2011, 2010, and 2009.

EAST END COMMUNITY HERITAGE SCHOOL

Hamilton County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

8. DEFINED BENEFIT PENSION PLANS (continued)

B. State Teachers Retirement System

Plan Description - The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. 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 43215-3771, by calling (888) 227-7877, 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 a member's lifetime 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For the fiscal year ended June 30, 2011, 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 2010, 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.

EAST END COMMUNITY HERITAGE SCHOOL

Hamilton County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

8. DEFINED BENEFIT PENSION PLANS (continued)

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010, and 2009 were \$42,253, \$32,092, and \$53,486 respectively; 100 percent for fiscal years 2011, 2010, and 2009. Contributions to the Combined Plan for fiscal year 2010 were \$28 made by the School District and \$20 made by the plan members. There were no contributions made to the DC Plan.

9. POSTEMPLOYMENT BENEFITS

A. School Employee Retirement System

Plan Description – The School District participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2011, 1.43 percent of covered payroll was allocated to health care.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School District's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$228, \$498, and \$5,265 respectively; 100 percent for fiscal years 2011, 2010, and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2011, this actuarially required allocation was 0.76 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal year ended June 30, 2011, 2010, and 2009 were \$121, \$823, and \$818, 100 percent was contributed for fiscal years 2011, 2010, and 2009.

EAST END COMMUNITY HERITAGE SCHOOL

Hamilton County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

9. POSTEMPLOYMENT BENEFITS (continued)

B. State Teachers Retirement System

Plan Description – The School District contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$3,250, \$2,469, and \$4,144 respectively; 100 percent for fiscal years 2011, 2010, and 2009.

10. OTHER EMPLOYEE BENEFITS

Compensated Absences

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

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

Insurance Benefits

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

EAST END COMMUNITY HERITAGE SCHOOL

Hamilton County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

11. CONTINGENCIES

A. Grants

The School receives 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 effect on the overall financial position of the School at June 30, 2011.

12. PURCHASED SERVICES

For the period July 1, 2010 through June 30, 2011, purchased service expenses were payments for services rendered by various vendors, as follows:

Professional and Technical Services	\$170,133
Communications	1,782
Property Services	155,112
Food Service	27,146
Other	3,234
Total Purchased	<u>\$357,407</u>

13. MANAGEMENT PLAN TO ADDRESS NEGATIVE NET ASSETS

Management has devised a plan to address the negative net assets balance. Plans to further reduce the payroll expense, rent expense, and outside services were implemented in fiscal year 2007, and negotiations with most vendors to reduce pricing or to perform full donations of services to the organization were instituted. Fiscal year 2008 showed a \$120,952 decrease in the negative net assets balance from 2007. Fiscal year 2009 showed a \$2,813 increase in the negative net assets balance. Fiscal year 2010 showed a \$69,414 increase in the negative net assets balance. The net asset balance is approximately (\$215,919) at June 30, 2011. This reflects a decrease of \$84,332 in the negative net assets during 2011. For fiscal year 2011, the School reduced full time staff to eight employees in an effort to further reduce payroll related expenses. The School also received an additional \$75,831 in state foundation revenue and \$59,023 in federal and state grants over the amount in 2010.



Dave Yost • Auditor of State

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

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

To the Board of Directors:

We have audited the basic financial statements of East End Community Heritage School, Hamilton County, Ohio (the School), as of and for the year ended June 30, 2011, and have issued our report thereon dated November 7, 2012, wherein we noted the School is experiencing financial difficulties. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the School's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider material weakness and another deficiency we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider findings 2011-01 and 2011-02 in the accompanying schedule of findings to be material weaknesses.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charges with governance. We consider finding 2011-03 described in the accompanying schedule of findings to be a significant deficiency.

Compliance and Other Matters

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2011-01 through 2011-03

We did note certain matters not requiring inclusion in this report that we reported to the School's management in a separate letter dated November 7, 2012.

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

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



Dave Yost
Auditor of State

November 7, 2012

**EAST END COMMUNITY HERITAGE SCHOOL
HAMILTON COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2011**

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

FINDING NUMBER 2011-01

Noncompliance/Material Weakness

East End Community Heritage School (the School) enters into contracts with School employees. Contents of the employment contracts vary depending on the year of the contract. The School was required by sections of the various contracts to pay employees as follows:

- For contracts in effect for fiscal year 2009, Section 3.01 *Base Compensation* states, in part, that as compensation for services rendered under the agreement the employee shall be paid the agreed wage.
- Also for fiscal year 2009, Section 3.06 *Effect of Termination on Compensation* provides that in the event of termination of employment, employee shall be entitled to compensation accrued and earned prior to the date of termination.
- Section 6 of the fiscal year 2010 contracts provided that the employee would be paid a specified amount and salaries should be paid bimonthly.
- For contracts in effect for fiscal year 2011, Section 4 *Compensation* states, in part, that compensation shall be paid in 24 equal twice monthly installments.

At June 30, 2011, the School owed \$72,604 to employees for unpaid compensation earned prior to July 1, 2009, \$28,765 to employees for unpaid compensation earned during fiscal year 2010, and \$34,563 to employees for unpaid compensation earned during fiscal year 2011. This indicates that the school is not compensating employees in accordance with their employment contracts. . The school did not initially record the expense and liability of \$135,932, and has adjusted the financial statements and accounting records as a result of an audit adjustment.

We recommend that the School abide by all contracts.

Officials' Response:

Greater care will be taken to ensure compliance.

FINDING NUMBER 2011-02

Noncompliance/ Material Weakness

Ohio Rev. Code, Section 149.351, states that all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commission provided for under sections 149.38 to 149.42 of the Revised Code.

The following records could not be located for audit:

- Canceled checks or bank statements for the months of January 2011 - April 2011.
- Seven employee contracts.
- W-4 forms and deduction authorization forms for four employees selected for testing.

**FINDING NUMBER 2011-02
(Continued)**

The School should develop policies and procedures outlining the security of all records or take a written inventory of all records noting the records description and location. All records should be maintained in a secure central location, such as locked file cabinets or in a locked office, with access limited to specific officials and/or personnel. Disposal of records should only be made in accordance with an approved records retention schedule.

Officials' Response:

Greater care will be taken to ensure compliance.

FINDING NUMBER 2011-03

Finding for Recovery/Noncompliance/Significant Deficiency Repaid under audit

Ohio Rev. Code, Section 3314.03(A)(6)(b), requires that the governing authority adopt an attendance policy that includes a procedure for automatically withdrawing a student from the school if the student without a legitimate excuse fails to participate in 105 consecutive hours of the learning opportunities offered to the student. During the 2009-2010 school year, the School offered 6 hours of instruction per day; therefore, a student could not have missed more than 18 consecutive non-excused days before being considered withdrawn from the school.

School management is responsible for accurately entering and maintaining student information in the CSADM database. The student files maintained by the School should substantiate the date a student withdraws from the School. When a student withdraws from the School the student file should be updated with a withdrawal form to support the withdrawal date.

Ohio Rev. Code, Section 3314.17(C), states that each fiscal officer appointed under section 3314.011 of the Revised Code is responsible for annually reporting the community school's data under section 3301.0714 of the Revised Code.

The Treasurer is responsible for ensuring the aforementioned student information was reported to the Ohio Department of Education's (ODE's) Community School Average Daily Membership (CSADM) and Education Management Information System (EMIS) databases.

During our review of student funding, we noted discrepancies relating to enrollment and withdrawal procedures for the school. For fiscal year 2011, ODE provided a base amount and a cost of doing business factor for weighted foundation amount for each student in attendance at the School totaling \$5,703. We divided the ODE funding amount by the 1183 hours of learning opportunities eligible for funding times 6.5 hours of instruction provided per day to arrive at a daily FTE unit rate per student of \$31.69. We multiplied the combined unallowable 87 days by the daily FTE unit rate of \$31.69 ($\$5,703/1183 \text{ hours} * 6.5 \text{ hours per day} = \31.69) to calculate ODE's overpayment to the School of \$2,757 ($\$31.69 * 87 \text{ days} = \$2,757$). Below is a chart summarizing our findings:

**FINDING NUMBER 2011-03
 (Continued)**

Student	Overfunding Issue	Days Overfunded	Overfunded Amounts
#1	Not withdrawn timely, not withdrawn until 1/11/11 per SOES, last date reported on daily attendance per DASL 11/15/10	27 * \$31.69	\$855.63
#2	Not withdrawn timely, not withdrawn until 3/3/11 per SOES, last date reported on daily attendance per DASL 11/19/10	60 * \$31.69	\$1,901.40
Total	Overfunding	87 * \$31.69	\$2,757.03

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended may be issued against East End Community Heritage School in the amount of \$2,757 and in favor of the Ohio Department of Education (ODE).

Our review of student information maintained by the School resulted in the following exceptions:

- No withdrawal authorization forms for 6 of the 8 students.
- The student was withdrawn timely in the SOES system but not in the DASL system.

We recommend that the School develop control procedures to ensure student files are complete and all documentation is current, accurate, and properly input into the SOES and DASL databases. In addition, the School should adopt a formal attendance policy which should be adopted by the Board and train employees on the procedures and monitor process regularly.

ODE calculates and provides funding to the School through school foundation based upon student attendance. Because of the School's inability to provide sufficient records regarding enrollment, we were unable to test information submitted to ODE. The School repaid ODE \$2,757.03 under audit.

Officials' Response:

Greater care will be taken to ensure compliance. Repaid under audit.

This page intentionally left blank.

**EAST END COMMUNITY HERITAGE SCHOOL
HAMILTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-001	Unpaid compensation contrary to employee contracts.	No	Reissued at finding 2011-001
2010-002	Lack of management internal control.	No	Reissued at finding 2011-002

This page intentionally left blank.



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

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

To the Board of Directors:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether East End Community Heritage School (the School) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. In our report dated May 11, 2011, we noted the Board adopted an anti-harassment policy on May 24, 2007. However, this policy did not include all matters required by Ohio Rev. Code 3313.666.
2. We inquired with the Board's management regarding the aforementioned policy. They stated they have not amended the May 24, 2011 policy. Therefore, the policy still lacks the following required by Ohio Rev. Code Section 3313.666.
 - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
 - (2) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666, as amended by House Bill 19 of the 128th General Assembly;
 - (3) A procedure for reporting prohibited incidents;
 - (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
 - (5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;

- (6) A procedure for documenting any prohibited incident that is reported;
- (7) A procedure for responding to and investigating any reported incident;
- (8) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
- (9) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;
- (10) A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of management, the Board and School's sponsor, and is not intended to be and should not be used by anyone other than these specified parties.



Dave Yost
Auditor of State

November 7, 2012



Dave Yost • Auditor of State

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
JANUARY 22, 2013**