EAST END COMMUNITY SCHOOL, INC.
MONTGOMERY COUNTY, OHIO

AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2005

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

Auditor of State
Betty Montgomery

Board of Trustees
East End Community School, Inc.
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, 2004 through June 30, 2005. 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, Inc. is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

September 11, 2006

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EAST END COMMUNITY SCHOOL, INC.
MONTGOMERY COUNTY
For the Year Ending June 30, 2005

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Certified Public Accountants

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REPORT OF INDEPENDENT ACCOUNTANTS

The Board of Trustees of
East End Community School, Inc.
Dayton, Ohio

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, 2005, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2005, 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 2 through 5 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 May 28, 2006 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.
May 28, 2006

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, 2005. 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 2005 are as follows:

- Total net assets of the School increased $140,379 in fiscal year 2005. Ending net assets of the School were $284,763 at June 30, 2005 compared with $144,384 at June 30, 2004.

- Total assets increased $179,215 which represents a 93.13 percent increase from the prior year due primarily to the higher cash balance on hand as well as increases in the amount of intergovernmental grants the School was entitled to at the end of fiscal year 2005.

- The School's operating loss for fiscal year 2005 was $92,894; a significant improvement from the $228,085 operating loss reported for fiscal year 2004. Operating revenues increased $397,614 (or 60 percent) over the prior year, attributable to higher state foundation payments received, while operating expenditures increased $262,423 (29 percent) over fiscal year 2004.

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 2005 compared with fiscal year 2004.

Table 1
Net Assets

	2005	2004
Assets:		
Current and other assets	$ 349,665	$ 174,188
Capital assets, net	21,985	18,247
Total Assets	371,650	192,435
Liabilities:		
Current liabilities	86,887	48,051
Net Assets:		
Invested in capital assets	21,985	18,247
Restricted	26,194	109,844
Unrestricted	236,584	16,293
Total Net Assets	$ 284,763	$ 144,384

The School's total net assets increased by $140,379 during fiscal year 2005. A significant increase in the amount of State Foundation revenue during the year as well as management's control of operating costs are the primary factors contributing to this increase.

As noted in Table 1 above, total current and other assets of the School increased by $175,477 from those reported at June 30, 2004. The increase is primarily due to the ending cash balance at June 30, 2005 being $156,740 larger than that reported at the end of the last fiscal year, as well as an increase of $18,737 reported in the intergovernmental grants receivable amount. The increase in the cash balance represents the difference between the cash receipts taken in for the year less the cash expenditures paid out. The increase in intergovernmental grants occurred due to the timing of grant payments which vary from year to year depending on when the School requires grant funds to pay obligations.

Total liabilities of the School increased $38,836 over those reported at June 30, 2004. Accounting for this increase is an increase of $31,150 in accounts payable and $8,621 in accrued wages payable. The significant increase in accounts payable was due to the school ordering and receiving goods and services related to the next school year before the end of fiscal year 2005. Accrued wages increased because additional employees were added to the payroll as well as the general increase in wages paid to employees. The School reports a liability associated with the wages paid to teaching staff during the summer as these wages were earned during the 2004-2005 school year but had not yet been paid to employees by June 30, 2005.

Restricted net assets, those net assets which are required to be spent on specific programs, decreased by $83,650 while the unrestricted net assets, those which management may allocate in any legally permitted manner it deems necessary, increased by $220,291 over the fiscal year 2004 amount. The decrease in restricted net assets occurred as the School began charging all applicable costs of grant funded programs to those grants during fiscal year 2005, which reduced the restricted balance at year-end associated with those grants. As a result, the unrestricted net assets, primarily those of the general fund, did not have to finance the cost of operating these programs.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2005, as well as revenue and expense comparisons to fiscal year 2004.

Table 2
Net Assets

	2005	2004
Operating Revenues:		
Foundation payments	$ 1,063,921	$ 660,761
Other operating revenues	7,646	13,192
Non Operating Revenues:		
State and federal grants	233,055	251,748
Interest earnings	218	921
Other non-operating revenues	-	68,250
Total Revenues	1,304,840	994,872
Operating Expenses:		
Salaries	637,546	497,177
Fringe Benefits	120,999	91,823
Building rental	59,687	54,174
Contracted fiscal services	36,833	-
Other purchased services	210,035	120,143
Materials and supplies	94,880	121,537
Depreciation	3,542	2,695
Other expenses	939	14,489
Total Expenses	1,164,461	902,038
Change in net assets	140,379	92,834
Net assets, beginning of year	144,384	51,550
Net Assets, end of year	$ 284,763	$ 144,384

The $403,160 increase in State Foundation revenue noted during fiscal year 2005 resulted from a 36.4 percent increase in the number of students enrolled in the School for the 2004-2005 school year, as well as increases in the per pupil funding amount in the State Foundation Program. The increase in this funding source more than offset the decrease in the level of local gifts and contributions received by the School in fiscal year 2005 as compared with the prior fiscal year.

Total expenses of the School reported the fiscal year were $262,423 more than those reported for the fiscal year 2004. Of this amount, $169,545 was related to increases in the costs of payroll and related benefits for the School's employees. As previously mention, the School required additional staff to meet the increase in the number of students enrolled during the 2004-2005 school year. In addition, the cost of providing insurance benefits to staff members continues to increase at a rapid pace for the School; following the national trend for employers. Growth in other expense categories was closely monitored to help offset these increases in personnel and related costs.

Capital Assets

At June 30, 2005, the capital assets of the School consisted of $30,156 of equipment offset by $8,171 in accumulated depreciation resulted in net capital assets of $21,985. The $3,738 increase in total net capital assets from the prior year is due to current year acquisitions of equipment totaling $7,280 less the current year depreciation expense recognized of $3,542. Equipment purchased during fiscal year 2005 included computers and related equipment.

See Note 5 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, 2005

Assets		
Current assets:		
Cash and cash equivalents	$	272,352
Receivables:		
Grants		73,563
Total current assets		345,915
Noncurrent assets:		
Security deposit		3,750
Fixed assets (net of accumulated depreciation)		21,985
Total noncurrent assets		25,735
Total assets		371,650
Liabilities		
Current liabilities:		
Accounts payable		36,832
Accrued wages payable		41,457
Intergovernmental payable		8,598
Total liabilities		86,887
Net assets		
Invested in capital assets		21,985
Restricted		26,194
Unrestricted		236,584
Total net assets	$	284,763

See accompanying notes to the basic financial statements.

EAST END COMMUNITY SCHOOL, INC.

Statement of Revenues, Expenses and Changes in Net Assets

Year Ended June 30, 2005

Operating revenues:		
Foundation payments	$	1,063,921
Miscellaneous operating revenue		7,646
Total operating revenues		1,071,567
Operating expenses:		
Salaries		637,546
Fringe benefits		120,999
Building rental		59,687
Contracted fiscal services		36,833
Other purchased services		210,035
Materials and supplies		94,880
Depreciation		3,542
Other		939
Total operating expenses		1,164,461
Operating loss		(92,894)
Non-operating revenues:		
State and federal grant revenue		233,055
Interest earnings		218
Total non-operating revenues		233,273
Change in net assets		140,379
Net assets at beginning of year		144,384
Net assets at end of year	$	284,763

See accompanying notes to the basic financial statements.

EAST END COMMUNITY SCHOOL, INC.
Statement of Cash Flows
Year Ended June 30, 2005

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
Cash flows from operating activities:		
Cash from State of Ohio	$	1,063,921
Cash payments to suppliers for goods and services		(370,500)
Cash payments to employees for services and benefits		(751,583)
Other operating revenue		7,646
Net cash used for operating activities		(50,516)
Cash flows from noncapital financing activities:		
Federal and state subsidies		214,318
Net cash provided by noncapital financing activities		214,318
Cash flows from capital and related financing activities:		
Cash payments for capital acquisitions		(7,280)
Net cash used for capital and related financing activities		(7,280)
Cash flows from investing activities:		
Interest earnings		218
Net cash provided by investing activities		218
NET INCREASE IN CASH AND CASH EQUIVALENTS		156,740
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		115,612
CASH AND CASH EQUIVALENTS, END OF YEAR	$	272,352
Reconciliation of operating loss to net cash used for for operating activities		
Operating loss	$	(92,894)
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities:		
Depreciation		3,542
Changes in assets and liabilities:		
Increase in accounts payable		31,150
Increase in accrued wages payable		8,621
Decrease in intergovernmental payable		(935)
Total Adjustments		42,378
Net cash used for operating activities	$	(50,516)

See accompanying notes to the basic 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 after which, the School must apply for an additional contract with the Sponsor.

The School operates under a six-member Board of Trustees (the Board), including one parent who is recommended by the Principal. The School's Code of Regulations specifies that vacancies that arise on the Board be filled by the appointment of a successor trustee by a majority vote of the then existing trustees. The Board is responsible for carrying out the provisions of the contract with the Sponsor which includes but is not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The School has one instructional/support facility staffed by one principal and eighteen full-time and part-time personnel who provide services to approximately 150 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 and the State Disadvantaged Pupil Impact Aid (DPIA) Program. These programs are recognized as operating revenues in the accounting period in which they are earned, essentially the same as the fiscal year. Federal and state 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 $1,063,921 and revenues associated with specific education grants from the state and federal governments totaled $233,055 during fiscal year 2005.

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, 2005, including:

Wages Payable – salary payments made after year-end that were for services rendered in rendered in fiscal year 2005. 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, 2005 for all salary payments made to teaching personnel during the month of July 2005.

Intergovernmental payable – payment for the employer's share of the retirement contribution ($7,673), workers' compensation ($324) and Medicare ($601) associated with services rendered during fiscal year 2005 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, 2005, the carrying amount of the School's deposits was $272,352 and the bank balance was $291,771. $191,771 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. Intergovernmental Receivables:

All intergovernmental receivables are considered collectible in full due to the stable condition of State programs, and the fiscal year guarantee of federal funds. Intergovernmental receivables of the School at June 30, 2005 consisted of the following federal grants in which all grant requirements had been satisfied, Title I ($67,324), Title II-D ($2,416), Title VI-B ($1,394), Title V ($641), Title II-A ($745), Title IV ($436) and Student Intervention Program ($607).

5. Capital Assets:

A summary of the School's capital assets at June 30, 2005, follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets being depreciated:				
Equipment	$ 22,876	7,280	-	$ 30,156
Less: accumulated depreciation on:				
Equipment	(4,629)	(3,542)	-	(8,171)
Capital assets, net	$ 18,247	3,738	-	$ 21,985

6. 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 2005, 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.

7. Defined Benefit Pension Plans:

A. School Employees Retirement System

The School contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statue Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate, the current rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; at June 30, 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal year ended June 30, 2005, 2004 and 2003 were $23,575, $22,942, and $19,789, 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 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2005, plan members were required to contribute the statutory maximum of 10.0 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations for the fiscal year ended June 30, 2005, 2004 and 2003 were $54,216, $51,178 and $51,320, respectively; 100 percent has been contributed for all fiscal years.

8. Postemployment Benefits

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

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For fiscal year ended June 30, 2005 and June 30, 2005, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was $3.3 billion on June 30, 2005. For the School, this amount equaled $3,873 during the 2005 fiscal year.

For the year ended June 30, 2005, net health care costs paid by STRS Ohio were $254,780,000. There were 115,395 eligible benefit recipients.

For SERS, the Ohio Revised Code gives the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, 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, 2005, the allocation rate is 3.43 percent. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at $27,400. 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. For the School, the amount to fund health care benefits, including the surcharge, was $5,894 for fiscal year 2005.

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ending June 30, 2005 were $178,221,113. The target level for the health care fund is 150 percent of the projected claims less premiums contributed for the next fiscal year. As of June 30, 2005, the value of the health care fund was $267.5 million, which is about 168 percent of next year's projected net health care costs of $158,776,151. 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 claim costs. The number of participants eligible to receive benefits at June 30, 2005 was 58,123.

9. Restricted Net Assets:

At June 30, 2005 the School reported restricted net assets totaling $26,194. The nature of the net asset restrictions are as follows:

Fordham Foundation technology grants	$ 4,541
State specific educational program grants	271
Federal specific educational program grants	21,382
Total	$ 26,194

10. Contingencies:

A. Grants

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

B. State funding

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

C. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001 alleging that Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. On April 21, 2004, the Court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed and the case was heard on November 18, 2004. On August 24, 2005, the Court of Appeals rendered a decision that Community Schools are part of the State public education system and this matter was sent to the Ohio Supreme Court. The effect of this suit, if any, on the School is not presently determinable.

11. State School Funding Decision:

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

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

12. 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, 2004 to June 30, 2005, the monthly lease payments totaled $59,687. 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 2006.

The School entered into a three-year operating lease for the use of copier equipment during fiscal year 2003. During fiscal year 2004, the School leased an additional copier and renewed the lease agreement for an additional five years. Monthly minimum lease payments are $561. Total lease payments for fiscal year 2005 were $6,729. Lease payments are expected to remain the same for the remaining term of the lease.

13. Other Purchased Services:

During the fiscal year ended June 30, 2005, other purchased service expenses for services rendered by various vendors were as follows:

Professional and technical services	$ 100,184
Property services	5,153
Meetings and travel	1,250
Communications	5,920
Contracted craft or trade services	82,074
Pupil transportation	1,525
Professional dues and fees	6,949
Insurance	6,980
	$ 210,035

14. 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 monthly fee for these services during fiscal year 2005 was $2,833.

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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*

To the Board of Trustees
East End Community School, Inc.
Dayton, Ohio

We have audited the financial statements of the East End Community School, Inc. (the "School") as of and for the year ended June 30, 2005 and have issued a report thereon dated May 28, 2006. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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, grant 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 or other matters that are required to be reported under *Government Auditing Standards*. However, noted certain immaterial instances of noncompliance that we have reported to management of the School in a separate letter dated May 28, 2006.

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

Charles E. Harris and Associates, Inc.
May 28, 2006

STATUS OF PRIOR AUDIT'S CITATIONS AND RECOMMENDATIONS

The prior audit report, as of June 30, 2004, reported no material citations or recommendations.

Auditor of State
Betty Montgomery

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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
SEPTEMBER 21, 2006