



Dave Yost • Auditor of State



**EAST END COMMUNITY HERITAGE SCHOOL  
HAMILTON COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Directors:

We have audited the accompanying basic financial statements of the East End Community Heritage School, Hamilton County, Ohio (the School), as of and for the year ended June 30, 2010, 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 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of East End Community Heritage School, as of June 30, 2010, 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.

As discussed in Note 13 to the financial statements, The School has suffered recurring losses from operations and has a net asset deficiency of \$300,251. Note 13 describes 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 May 11, 2011, 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.

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

**Dave Yost**  
Auditor of State

May 11, 2011

**EAST END HERITAGE COMMUNITY SCHOOL**  
**Hamilton County**  
Managements Discussion and Analysis  
For the Fiscal Year Ended June 30, 2010  
(Unaudited)

The discussion and analysis of the East End Heritage Community School (the School) financial performance provides an overall review of the School's financial activities for the year ended June 30, 2010. 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 2010 assets were less than liabilities by \$300,251.
- The School derived 99.7 percent of their revenues through federal and state programs.
- Salaries and benefits accounted for 58.48 percent of the \$812,235 in expenses for fiscal year 2010.
- The School saw the cash balance decrease by \$10,783 from fiscal year 2009.

**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 HERITAGE COMMUNITY SCHOOL**  
**Hamilton County**  
 Managements Discussion and Analysis  
 For the Fiscal Year Ended June 30, 2010  
 (Unaudited)

Table 1 provides a summary of the School's net assets for fiscal year 2009 compared to fiscal year 2010.

**Table 1**  
**Net Assets**

|                            | <u>2009</u>        | <u>2010</u>        | <u>Change</u>     |
|----------------------------|--------------------|--------------------|-------------------|
| <b>Assets</b>              |                    |                    |                   |
| Current assets             | \$20,724           | \$23,406           | \$2,682           |
| Capital assets, net        | 0                  | 10,800             | 10,800            |
| <i>Total assets</i>        | <u>20,724</u>      | <u>34,260</u>      | <u>13,483</u>     |
| <b>Liabilities</b>         |                    |                    |                   |
| Current liabilities        | 251,561            | 334,511            | 82,950            |
| <i>Total liabilities</i>   | <u>251,561</u>     | <u>334,511</u>     | <u>82,950</u>     |
| <b>Net Assets</b>          |                    |                    |                   |
| Invested in capital assets | 0                  | 10,800             | 10,800            |
| Unrestricted               | (230,837)          | (311,051)          | (80,214)          |
| <i>Total net assets</i>    | <u>(\$230,837)</u> | <u>(\$300,251)</u> | <u>(\$69,414)</u> |

The School saw assets increase by \$13,834. The School purchased computers during the year as part of the increased enrollment figures. The School also had a receivable from the School Employees Retirement System for overpayments for the pension obligations. The current liabilities increased mainly through some additional vendors payables that existed at year end.

**EAST END HERITAGE COMMUNITY SCHOOL**

**Hamilton County**

Managements Discussion and Analysis  
For the Fiscal Year Ended June 30, 2010  
(Unaudited)

Table 2 shows the change in net assets for the year ended 2009 compared to fiscal year 2010.

**Table 2**  
**Change in Net Assets**

|                          | <u>2009</u>        | <u>2010</u>        | <u>Change</u>     |
|--------------------------|--------------------|--------------------|-------------------|
| <b>Revenues</b>          |                    |                    |                   |
| Operating revenues:      |                    |                    |                   |
| Foundation payments      | \$321,067          | \$513,500          | \$192,433         |
| Special education        | 27,199             | 32,785             | 5,586             |
| Other operating revenues | 139                | 2,283              | 2,144             |
| Non-operating revenues:  |                    |                    |                   |
| Federal and state grants | 159,598            | 194,253            | 34,655            |
| Total revenues           | <u>508,003</u>     | <u>742,821</u>     | <u>234,818</u>    |
| <b>Expenses</b>          |                    |                    |                   |
| Operating expenses:      |                    |                    |                   |
| Salaries                 | 321,506            | 400,625            | 79,119            |
| Fringe benefits          | 48,749             | 74,344             | 25,595            |
| Purchased services       | 92,324             | 313,954            | 221,630           |
| Materials and supplies   | 15,809             | 17,182             | 1,373             |
| Depreciation             | 1,430              | 5,400              | 3,970             |
| Other expenses           | 30,998             | 730                | (30,268)          |
| Total Expenses           | <u>510,816</u>     | <u>812,235</u>     | <u>301,419</u>    |
| Change in Net Assets     | <u>(2,813)</u>     | <u>(69,414)</u>    | <u>(\$66,601)</u> |
| Beginning Net Assets     | <u>(228,024)</u>   | <u>(230,837)</u>   |                   |
| Ending Net Assets        | <u>(\$230,837)</u> | <u>(\$300,251)</u> |                   |

The School saw a significant increase in the revenues from 2009 to 2010 mainly to due to increased state foundation program revenue (Foundation Payment and Special Education Funding) as the number of students increased significantly between the years (2009 – 56 and 2010 – 95). Federal and state grant revenues were also more than the prior year in part to the additional stimulus funding the School received in 2010. The School increased expenses from the prior year mainly through contractual services to help educate the additional students.

# **EAST END HERITAGE COMMUNITY SCHOOL**

## **Hamilton County**

Managements Discussion and Analysis  
For the Fiscal Year Ended June 30, 2010  
(Unaudited)

### **Capital Assets**

At the end of 2010, the School had \$10,800 (net of \$71,921 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 \$27,370 at June 30, 2010. 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 a year now 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.

### **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 Heritage Community School, 7030 Reading Road, Suite 100, Cincinnati, Ohio 45237.

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

**AS OF JUNE 30, 2010**

**Assets:**

Current assets:

|                              |               |
|------------------------------|---------------|
| Cash and cash equivalents    | \$ 5,200      |
| Employee Receivable          | 4,761         |
| Intergovernmental receivable | 13,499        |
| <b>Total current assets</b>  | <u>23,460</u> |

Noncurrent assets:

|                                |               |
|--------------------------------|---------------|
| Capital assets, net            | 10,800        |
| <b>Total noncurrent assets</b> | <u>10,800</u> |

**Total Assets** 34,260

**Liabilities:**

Current liabilities

|                                    |                |
|------------------------------------|----------------|
| Accounts payable                   | 137,091        |
| Accrued wages and benefits payable | 163,548        |
| Intergovernmental payable          | 6,502          |
| Short term loan payable            | 27,370         |
| <b>Total current liabilities</b>   | <u>334,511</u> |

**Total Liabilities** 334,511

**Net Assets:**

|   |           |
|---|-----------|
| Invested in capital assets, net of related debt | 10,800    |
| Unrestricted                                    | (311,051) |

**Total net assets** \$ (300,251)

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, 2010**

|  |                            |
|--|----------------------------|
| <b>Operating Revenues:</b>                       |                            |
| Foundation payments                              | \$ 513,500                 |
| Special Education                                | 32,785                     |
| Other operating revenues                         | <u>2,283</u>               |
| <b>Total operating revenues</b>                  | <u>548,568</u>             |
| <b>Operating Expenses:</b>                       |                            |
| Salaries   | 400,625                    |
| Fringe benefits                                  | 74,344                     |
| Purchased services                               | 313,954                    |
| Materials and supplies                           | 17,182                     |
| Depreciation                                     | 5,400                      |
| Other operating expenses                         | <u>730</u>                 |
| <b>Total operating expenses</b>                  | <u>812,235</u>             |
| Operating Loss                                   | <u>(263,667)</u>           |
| <b>Non-Operating Revenues and Expenses:</b>      |                            |
| Federal grants                                   | 191,567                    |
| State grants                                     | <u>2,686</u>               |
| <b>Total non-operating revenues and expenses</b> | <u>194,253</u>             |
| <b>Change in net assets</b>                      | (69,414)                   |
| Net assets at beginning of year                  | <u>(230,837)</u>           |
| Net assets at end of year                        | <u><u>\$ (300,251)</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, 2010**

**Increase (Decrease) in cash and cash equivalents**

**Cash flows from operating activities:**

|   |                  |
|---|------------------|
| Cash received from State of Ohio - Foundation | \$ 546,285       |
| Cash received from other operating revenues   | 2,283            |
| Cash payments for personal services           | (447,924)        |
| Cash payments for contract services           | (288,693)        |
| Cash payments for supplies and materials      | (14,766)         |
| Cash payments for other expenses              | (730)            |
| Net cash used by operating activities         | <u>(203,545)</u> |

**Cash flows from noncapital financing activities:**

|  |                |
|--|----------------|
| Cash received from state and federal grants          | 193,982        |
| Proceeds from short term loan                        | 15,000         |
| Net cash provided by noncapital financing activities | <u>208,982</u> |

**Cash flows from capital and related financing activities:**

|   |                 |
|---|-----------------|
| Acquisition of Capital Assets                             | <u>(16,200)</u> |
| Net cash used by capital and related financing activities | <u>(16,200)</u> |

|  |                     |
|--|---------------------|
| Net change in cash and cash equivalents        | (10,763)            |
| Cash and Cash Equivalents at beginning of year | <u>15,963</u>       |
| Cash and Cash Equivalents at end of year       | <u><u>5,200</u></u> |

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

|   |            |
|---|------------|
| Operating loss  | (263,667)  |
| Adjustments to reconcile operating loss<br>to net cash provided for operating activities: |            |
| Depreciation  | 5,400      |
| Change in assets and liabilities:   |            |
| Increase in Intergovernmental receivable  | (13,228)   |
| Increase in accounts payable  | 19,320     |
| Decrease in accrued wages and benefits  | 48,008     |
| Increase in intergovernmental payable   | 622        |
|   | <u>622</u> |

|                                       |                            |
|---------------------------------------|----------------------------|
| Net cash used by operating activities | <u><u>\$ (203,545)</u></u> |
|---------------------------------------|----------------------------|

See accompanying notes to the basic financial statements

# **EAST END COMMUNITY HERITAGE SCHOOL**

## **Hamilton County**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010

### **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 5 non-certified, 15 certified full time teaching personnel, and 2 administrators who provide services to 95 students.

# **EAST END COMMUNITY HERITAGE SCHOOL**

## **Hamilton County**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010

### **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.

#### **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.

**EAST END COMMUNITY HERITAGE SCHOOL**

**Hamilton County**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**E. Employee Receivable**

The School reports an employee receivable for advances made from the School to the employees of the School. The School currently has no repayment policy. The School has the ability to reduce the amount of the receivable for each employee if the employee leaves the School. There were no payments made on the respective receivables during 2010.

**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 values as of the date received. The School maintains a capitalization threshold of two thousand dollars. The School does not possess 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 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                      |

**G. 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, 2010 totaled \$740,538.

# **EAST END COMMUNITY HERITAGE SCHOOL**

## **Hamilton County**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2010

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **H. 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.

#### **I. 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.

#### **J. 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.

#### **K. Short Term Loan Payable**

The School has received advances from several key employees for various operating activities. The School has no repayment plan in place to pay back the employee loans. The School received a \$15,000 short term loan from Specialists in Education Excellence during 2010 that will be repaid during fiscal year 2011.

### **3. DEPOSITS AND INVESTMENTS**

At June 30, 2010, the carrying amount of the School's deposits was \$5,200 and the bank balance was \$24,260. 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.

# EAST END COMMUNITY HERITAGE SCHOOL

## Hamilton County

### Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2010

#### 3. DEPOSITS AND INVESTMENTS (continued)

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.

#### 4. RECEIVABLES

The School continues to report a receivable reported at June 30, 2010 related to the payments due to the employees. During 2010, the receivable was unchanged. The School is determining the best way to address the receivable for fiscal year 2011. The School also reported intergovernmental receivables for amounts overpaid to School Employees Retirement System (\$13,228) and remaining 2010 Title VI-B funds (\$271).

#### 5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2010:

|  | Balance<br>6/30/09 | Additions | Deductions | Balance<br>6/30/10 |
|--|--------------------|-----------|------------|--------------------|
| Capital Assets Being Depreciated       |                    |           |            |                    |
| Furniture, Fixtures and Equipment      | \$5,620            | \$0       | \$0        | \$5,620            |
| Computers                              | 28,034             | 16,200    | 0          | 44,234             |
| Textbooks                              | 15,647             | 0         | 0          | 15,647             |
| Total Capital Assets Being Depreciated | 49,301             | 16,200    | 0          | 65,501             |
| Less Accumulated Depreciation          |                    |           |            |                    |
| Furniture, Fixtures and Equipment      | (5,620)            | 0         | 0          | (5,620)            |
| Computers                              | (28,034)           | 0         | 0          | (28,034)           |
| Textbooks                              | (15,647)           | (5,400)   | 0          | (21,047)           |
| Total Accumulated Depreciation         | (49,301)           | (5,400)   | 0          | (54,701)           |
| Capital Assets, Net                    | \$0                | \$10,800  | \$0        | \$10,800           |

#### 6. DEBT

At June 30, 2010, the School had a short term loan payable from key employees and contractors of the School. The School received \$15,000 during 2010 and paid back \$0 on the loan balances. The amount due at June 30, 2010 is \$27,370. The School is evaluating the best way to repay the loan obligations to the various employees. The additional \$15,000 that was received during 2010 from Specialists in Education Excellence, the School's Management Company, was repaid during the first quarter for fiscal year 2011. The loans were provided to School at a zero interest rate.

**EAST END COMMUNITY HERITAGE SCHOOL**

**Hamilton County**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2010

**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 2010, 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 2010, 12.78 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, 2010, 2009, and 2008 were \$13,840, \$11,260, and \$34,914 respectively; 100 percent for fiscal years 2010, 2009, and 2008.

**EAST END COMMUNITY HERITAGE SCHOOL**

**Hamilton County**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010

**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](http://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, 2010, 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 2009, 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, 2010

**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, 2010, 2009, and 2008 were \$32,092, \$53,486, and \$104,505 respectively; 100 percent for fiscal years 2010, 2009, and 2008. Contributions to the Combined Plan for fiscal year 2010 were \$4,882 made by the School District and \$3,488 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 2010, 0.46 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, 2010, 2009 and 2008 were \$498, \$5,265 and \$13,019 respectively; 100 percent for fiscal years 2010, 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2010, 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, 2010, 2009 and 2008 were \$823, \$818 and \$2,260, 100 percent was contributed for fiscal years 2010, 2009 and 2008.

**EAST END COMMUNITY HERITAGE SCHOOL**

**Hamilton County**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010

**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](http://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 2010, 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, 2010, 2009 and 2008 were \$2,469, \$4,144 and \$7,464 respectively; 100 percent for fiscal years 2010, 2009 and 2008.

**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, 2010

**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, 2010.

**12. PURCHASED SERVICES**

For the period July 1, 2009 through June 30, 2010, purchased service expenses were payments for services rendered by various vendors, as follows:

|                                     |                  |
|-------------------------------------|------------------|
| Professional and Technical Services | \$140,075        |
| Utilities                           | 30,215           |
| Communications                      | 3,132            |
| Property Services                   | 33,298           |
| Food Service                        | 73,620           |
| Other                               | 33,614           |
| Total Purchased                     | <u>\$313,954</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. The negative net asset balance is approximately (\$300,251) at June 30, 2010. This reflects an increase of \$69,414 in the negative net assets during 2010. The School realized a cash decrease of \$10,763 during the 2010 fiscal year. For fiscal year 2011, the School has reduced full time staff to eight employees in an effort to further reduce payroll related expenses.

East End Community Heritage School has failed to earn a Local Report Card rating above Academic Emergency for fiscal years 2009, 2008, 2007, and 2005. Due to poor academic performance for three consecutive school years the School may be subject to permanent closure by the Ohio Department of Education by June 2011 based on guidelines defined in Ohio Revised Code section 3314.35.

## EAST END COMMUNITY HERITAGE SCHOOL

### Hamilton County

#### Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2010

#### 14. NONCOMPLIANCE

The School enters into contract with School employees. Contents of the employment contracts vary depending on the year of the contract. The School was required by section 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.

At June 30, 2010, the School owed employees \$89,900 to employees for unpaid compensation earned prior to July 1, 2009, and \$31,565 to employees for unpaid compensation earned during fiscal year 2010. This indicates that the School is not compensating employees in accordance with their employment contracts. \$69,116 of the \$89,900 noted above was not included in the accrued wages calculation and the financial statements and accounting records have been adjusted to include this amount of unpaid wages.



# 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 Road 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, 2010, and have issued our report thereon dated May 11, 2011, 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 weaknesses.

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 2010-001 and 2010-002 described in the accompanying schedule of findings to be material weaknesses.

### **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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2010-001.

We also noted certain matters not requiring inclusion in this report that we reported to the School's management in a separate letter dated May 11, 2011.

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

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

**Dave Yost**  
Auditor of State

May 11, 2011

**EAST END COMMUNITY HERITAGE SCHOOL  
HAMILTON COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2010**

**FINDING NUMBER 2010-001**

**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.

At June 30, 2010, the School owed employees \$89,900 to employees for unpaid compensation earned prior to July 1, 2009, and \$31,565 to employees for unpaid compensation earned during fiscal year 2010. This indicates that the school is not compensating employees in accordance with their employment contracts. \$69,116 of the \$89,900 noted above was not included in the accrued wages calculation and the financial statements and accounting records have been adjusted to include this amount of unpaid wages.

We recommend that the School abide by all contracts.

**Officials' Response:**

We did not receive a response from officials for this finding.

**FINDING NUMBER 2010-002**

**Material Weakness**

When designing the public office's system of internal control and the specific control activities, management should consider ensuring that:

- Accounting records are properly designed, verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records.
- All transactions are properly classified and recorded on the books and in the annual report.

The following conditions indicate lack of management internal control:

- Recalculations of contract amounts for employees showed possible underpayments of wages in four out of 25 payroll expenditures tested (16%). Due to a missing contract and a lack of documentation to support for compensation for the transition of teachers during the year that were formally shared with another community school that discontinued operations, we could not determine if these four employees were paid in accordance with their authorized rates/salaries.

**FINDING NUMBER 2010-002**  
**(Continued)**

- Four checks totaling \$5,500 were posted to the general ledger as payable to Jennifer M., but the actual checks were made payable to and endorsed by Rochelle Shields. Review of all items to Jennifer M. and Rochelle Shields were found to be within Ms. Shields contract.

Failure to accurately process transactions and prepare and reconcile the accounting records: 1) reduces the accountability over School funds, 2) reduces the Board of Directors' ability to monitor financial activity and make informed financial decisions, 3) increases the likelihood that errors, theft and fraud could occur and not be detected in a timely manner.

We recommend the School implement controls to ensure accurate accounting and financial reporting, and accurate processing of payroll disbursements. These controls could include, but are not limited to:

Maintaining proper documentation of all payroll-related payments, including documentation of any changes in authorized rates/salaries.

All payroll-related disbursements should be recorded correctly in the underlying accounting records and reported to the company retained to process payroll in order for proper wages and related withholdings to be withheld and reported on forms W-2 and 1099.

**Officials' Response:**

We did not receive a response from officials for this finding.

**EAST END COMMUNITY HERITAGE SCHOOL  
HAMILTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2010**

| Finding Number | Finding Summary   | Fully Corrected?    | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b> |
|----------------|---|---------------------|--|
| 2009-001       | Notes and financial statements not in compliance with GASB/GAAP                                     | Partially Corrected | Reissued as Finding 2010-001   |
| 2009-002       | Payroll charged to federal programs comingled and lacked detailed records to determine allowability | Yes                 |  |
| 2009-003       | Unpaid compensation contrary to employee contracts  | No                  | Reissued as Finding 2010-001   |

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# 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. We noted the Board adopted an anti-harassment policy at its meeting on May 24, 2007.
2. We read the policy, noting it did or did not include the following requirements from Ohio Rev. Code Section 3313.666(B):
  - (1) The policy did contain a statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
  - (2) The policy did not contain a definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666;
  - (3) The policy did not contain a procedure for reporting prohibited incidents;
  - (4) The policy did not contain 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) The policy did not contain 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) The policy did not contain a procedure for documenting any prohibited incident that is reported;
  - (7) The policy did not contain a procedure for responding to and investigating any reported incident;

- (8) The policy did not contain a strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
- (9) The policy did not contain 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) The policy did not contain 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

May 11, 2011



# 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  
JUNE 2, 2011**