



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 Trustees:

We have audited the accompanying basic financial statements of East End Community Heritage School, Hamilton County, Ohio (the School), as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of East End Community Heritage School, Hamilton County, Ohio, as of June 30, 2012, and the changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the School will continue as a going concern. As discussed in Note 13 to the financial statements, The School has suffered losses from operations and has a net asset deficiency of \$172,927 that raise substantial doubt about its ability to continue as a going concern. Note 13 describes Management's plan 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 March 29, 2013, 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

March 29, 2013

EAST END COMMUNITY HERITAGE SCHOOL
Hamilton County, Ohio
Managements Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Unaudited)

The discussion and analysis of the East End Community Heritage School (the School) financial performance provides an overall review of the School's financial activities for the year ended June 30, 2012. 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 2012 assets were less than liabilities by \$172,927 which is an improvement over fiscal year 2011 by \$42,992.
- The School derived 98.7 percent of their revenues through federal and state programs.
- Salaries and benefits only accounted for 54.86 percent of the \$1,142,573 in expenses for fiscal year 2012 as the School provides a significant number of services through professional service contracts.
- The School saw the cash balance increase by \$2,137 from fiscal year 2012.

Using this Annual Financial Report and Overview of Financial Statements

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

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

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

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

EAST END COMMUNITY HERITAGE SCHOOL
Hamilton County, Ohio
 Managements Discussion and Analysis
 For the Fiscal Year Ended June 30, 2012
 (Unaudited)

Table 1 provides a summary of the School's net assets for fiscal year 2011 compared to fiscal year 2012.

Table 1
Net Assets

	2011	2012	Change
Assets			
Current assets	\$43,426	\$39,502	(\$3,924)
Capital assets, net	5,400	0	(5,400)
<i>Total assets</i>	48,826	39,502	(9,324)
Liabilities			
Current liabilities	264,745	212,429	(52,316)
<i>Total liabilities</i>	264,745	212,429	(52,316)
Net Assets			
Invested in capital assets	5,400	0	(5,400)
Unrestricted	(221,319)	(172,927)	48,392
<i>Total net assets</i>	(215,919)	(172,927)	\$42,992

The School saw assets decrease by \$9,324. The School had a receivable in 2011 from the School Employees Retirement System for overpayments for the pension obligations that was not the case in 2012. The current liabilities decreased as the School was able to significantly reduce the accounts payable and continued to pay on the outstanding accrued wage obligation.

EAST END COMMUNITY HERITAGE SCHOOL
Hamilton County, Ohio
 Managements Discussion and Analysis
 For the Fiscal Year Ended June 30, 2012
 (Unaudited)

Table 2 shows the change in net assets for the year ended 2011 compared to fiscal year 2012.

Table 2
Change in Net Assets

	<u>2011</u>	<u>2012</u>	<u>Change</u>
Revenues			
Operating revenues:			
Foundation payments	\$591,471	\$576,374	(\$15,097)
Special education	30,645	48,487	17,842
Other operating revenues	2,026	15,716	13,690
Non-operating revenues:			
Federal and state grants	<u>253,276</u>	<u>544,952</u>	<u>291,676</u>
Total revenues	<u>877,418</u>	<u>1,185,529</u>	<u>308,111</u>
Expenses			
Operating expenses:			
Salaries	335,789	420,071	84,282
Fringe benefits	76,535	206,714	130,179
Purchased services	357,407	450,648	93,241
Materials and supplies	17,723	29,337	11,614
Depreciation	5,400	5,400	0
Other expenses	<u>232</u>	<u>30,547</u>	<u>30,315</u>
Total Expenses	<u>793,086</u>	<u>1,142,537</u>	<u>349,451</u>
Change in Net Assets	84,332	42,992	<u>(\$41,340)</u>
Beginning Net Assets	<u>(300,251)</u>	<u>(215,919)</u>	
Ending Net Assets	<u>(\$215,919)</u>	<u>(\$172,927)</u>	

The School saw a significant increase in the revenues from 2011 to 2012 due to receipt of additional grant funding mainly by receiving the school improvement grant for 2012. The School did saw state foundation program revenue (Foundation Payment and Special Education Funding) decrease as the School had a slightly less students but the State also decreased the funding per student this year. The School increased expenses from the prior year partly through adding back some staff, increased fringe benefit costs with unemployment and the prior year accrual for the SERS refund was reversed out. The School also saw purchase services increase as the School entered into a contract with Xavier University to provide professional development and instructional services through the school improvement grant funding.

EAST END COMMUNITY HERITAGE SCHOOL

Hamilton County, Ohio

Managements Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Unaudited)

Capital Assets

At the end of 2012, the School had \$0 (net of \$65,501 in accumulated depreciation) invested in furniture and equipment. For more information on the School's capital assets refer to note 5 of the notes to the financial statements.

Debt

The School had a short term loan payable \$11,688 at June 30, 2012. For more information on the School's debt refer to note 6 of the notes to the financial statements.

Current Financial Issues

The School has had the same finance professional on staff for almost two years now which will aid in the improvements in the quality of financial records and strengthen internal controls. The current rented location for the School is currently in foreclosure requiring the School to move to a new facility. The new building will be a former school building that will help reduce the operational costs as the utilities and repairs are included within the monthly rent. The School anticipates this to be significant savings over the current costs. Moving into a school building will allow the School to market to community centers and church and it is anticipated that enrollment will increase. The School continues to pay back former employees creating a significant liability (\$82,816) for the current fiscal year.

Contacting the School's Financial Management

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

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

AS OF JUNE 30, 2012

Assets:

Current assets:

Cash and cash equivalents	\$ 4,784
Intergovernmental receivable	34,718
Total current assets	<u>39,502</u>

Total Assets 39,502

Liabilities:

Current liabilities

Accounts payable	36,057
Accrued wages and benefits payable	142,862
Intergovernmental payable	21,822
Short term loan payable	11,688
Total current liabilities	<u>212,429</u>

Total Liabilities 212,429

Net Assets:

Unrestricted (172,927)

Total net assets \$ (172,927)

See accompanying notes to the basic financial statements

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

For the Fiscal Year Ended June 30, 2012

Operating Revenues:	
Foundation payments	\$ 576,374
Special Education	48,487
Other operating revenues	<u>15,716</u>
Total operating revenues	<u>640,577</u>
Operating Expenses:	
Salaries	420,071
Fringe benefits	207,355
Purchased services	450,468
Materials and supplies	29,337
Depreciation	5,400
Other operating expenses	<u>29,906</u>
Total operating expenses	<u>1,142,537</u>
Operating Loss	<u>(501,960)</u>
Non-Operating Revenues:	
Federal grants	535,519
State grants	<u>9,433</u>
Total non-operating revenues	<u>544,952</u>
Change in net assets	42,992
Net assets at beginning of year	<u>(215,919)</u>
Net assets at end of year	<u><u>\$ (172,927)</u></u>

See accompanying notes to the basic financial statements

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

For the Fiscal Year Ended June 30, 2012

Increase (Decrease) in cash and cash equivalents

Cash flows from operating activities:

Cash received from State of Ohio - Foundation	\$ 624,861
Cash received from other operating revenues	26,116
Cash payments for personal services	(602,995)
Cash payments for contract services	(516,267)
Cash payments for supplies and materials	(15,971)
Cash payments for other expenses	(40,306)
Net cash used by operating activities	<u>(524,562)</u>

Cash flows from noncapital financing activities:

Cash received from state and federal grants	<u>526,699</u>
Net cash provided by noncapital financing activities	<u>526,699</u>

Net change in cash and cash equivalents	2,137
Cash and Cash Equivalents at beginning of year	<u>2,647</u>
Cash and Cash Equivalents at end of year	<u><u>4,784</u></u>

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

Operating loss	(501,960)
Adjustments to reconcile operating loss to net cash provided for operating activities:	
Depreciation	5,400
Change in assets and liabilities:	
Decrease in Intergovernmental receivable	24,314
Decrease in accounts payable	(51,646)
Decrease in accrued wages and benefits	(515)
Decrease in intergovernmental payable	<u>(155)</u>
Net cash used by operating activities	<u><u>\$ (524,562)</u></u>

See accompanying notes to the basic financial statements

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EAST END COMMUNITY HERITAGE SCHOOL

Hamilton County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

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 and they are currently still the School's sponsor.

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 14 classified or certified full time teaching personnel and 3 administrators who provide services to 91 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to a governmental nonprofit organization. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. However, the School has elected not to apply FASB statements and interpretations after November 30, 1989. Following are the more significant of the School's accounting policies.

EAST END COMMUNITY HERITAGE SCHOOL

Hamilton County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

E. Capital Assets and Depreciation

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

EAST END COMMUNITY HERITAGE SCHOOL

Hamilton County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

F. Intergovernmental Revenues

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

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

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

Amounts awarded under grants and entitlements for the year ended June 30, 2012 totaled \$1,169,813.

G. Net Assets

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

H. Estimates

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

EAST END COMMUNITY HERITAGE SCHOOL

Hamilton County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Operating Revenues and Expenses

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

J. Short Term Loan Payable

The School has received advances from several key employees/vendors for various operating activities. The School has no repayment plan in place to pay back the remaining loans and only accounts for the payments when made.

3. DEPOSITS AND INVESTMENTS

At June 30, 2012, the carrying amount of the School's deposits was \$4,784 and the bank balance was \$8,264. The entire bank balance was covered by Federal Depository Insurance Corporation (FDIC).

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

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

EAST END COMMUNITY HERITAGE SCHOOL

Hamilton County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

4. RECEIVABLES

The School also reported intergovernmental receivables for the following grants:

<u>Grant</u>	<u>Amount</u>
Title IIA	\$695
Title I	23,737
Title VI-B	4,200
Capital Improvement	5,759
Miscellaneous Federal	327
Total	<u>\$34,718</u>

5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012:

	<u>Balance 6/30/11</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 6/30/12</u>
Capital Assets Being Depreciated				
Furniture, Fixtures and Equipment	\$5,620	\$0	\$0	\$5,620
Computers	44,234	0	0	44,234
Textbooks	15,647	0	0	15,647
Total Capital Assets Being Depreciated	<u>65,501</u>	<u>0</u>	<u>0</u>	<u>65,501</u>
Less Accumulated Depreciation				
Furniture, Fixtures and Equipment	(5,620)	0	0	(5,620)
Computers	(38,834)	(5,400)	0	(44,234)
Textbooks	(15,647)	0	0	(15,647)
Total Accumulated Depreciation	<u>(60,101)</u>	<u>(5,400)</u>	<u>0</u>	<u>(65,501)</u>
Capital Assets, Net	<u>\$5,400</u>	<u>(\$5,400)</u>	<u>\$0</u>	<u>\$0</u>

6. DEBT

At June 30, 2012, the School had a short term loan payable from key employees of the School. The School did not repay any of the loan amounts to key during 2012. The amount due at June 30, 2012 is \$11,688. The School is evaluating the best way to repay the loan obligations to the various employees but no repayment plan is currently in place.

EAST END COMMUNITY HERITAGE SCHOOL

Hamilton County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

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 2012, 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 2012, 12.70 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, 2012, 2011, and 2010 were \$5,793, \$1,885, and \$13,840 respectively; 100 percent for fiscal years 2012, 2011, and 2010.

EAST END COMMUNITY HERITAGE SCHOOL

Hamilton County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

8. DEFINED BENEFIT PENSION PLANS (continued)

B. State Teachers Retirement System

Plan Description - The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For the fiscal year ended June 30, 2012, 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 2011, 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, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

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, 2012, 2011, and 2010 were \$48,810, \$42,253, and \$32,092 respectively; 100 percent for fiscal years 2012, 2011, and 2010. Contributions to the Combined and DC Plans for fiscal year 2012 were \$1,005 made by the School District and \$718 made by the plan members.

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 2012, 0.55 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, 2012, 2011, and 2010 were \$251, \$228, and \$498 respectively; 100 percent for fiscal years 2012, 2011, and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2012, this actuarially required allocation was 0.75 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal year ended June 30, 2012, 2011, and 2010 were \$342, \$121, and \$823, 100 percent was contributed for fiscal years 2012, 2011, and 2010.

EAST END COMMUNITY HERITAGE SCHOOL

Hamilton County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

9. POSTEMPLOYMENT BENEFITS (continued)

B. State Teachers Retirement System

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

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, 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, 2012, 2011, and 2010 were \$3,755, \$3,250, and \$2,469 respectively; 100 percent for fiscal years 2012, 2011, and 2010.

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, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

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, 2012.

12. PURCHASED SERVICES

For the period July 1, 2011 through June 30, 2012, purchased service expenses were payments for services rendered by various vendors, as follows:

Professional and Technical Services	\$273,540
Communications	2,852
Property Services	112,580
Food Service	44,382
Other	17,114
Total Purchased	<u>\$450,468</u>

13. MANAGEMENT PLAN TO ADDRESS NEGATIVE NET ASSETS

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

In 2012, the negative net assets were reduced by \$42,992 due in part to additional state grant revenue. The School continues to evaluate options to reduce the deficit.



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, 2012 and have issued our report thereon dated March 29, 2013, wherein we noted the accompanying financial statements have been prepared assuming that the School will continue as a going concern; the School has suffered losses from operations and has a net asset deficiency of \$172,927 that raise substantial doubt about its ability to continue as a going concern. 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 was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

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 internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the School's financial statements. We consider finding 2012-01 described in the accompanying schedule of findings to be a material weakness

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, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as item 2012-01 and 2012-02.

We did note certain matters not requiring inclusion in this report that we reported to the School's management in a separate letter dated March 29, 2013.

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



Dave Yost
Auditor of State

March 29, 2013

**EAST END COMMUNITY HERITAGE SCHOOL
HAMILTON COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2012**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2012-01

Noncompliance/Material Weakness

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

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

At June 30, 2012, the School owed a total of \$82,816 for compensation earned prior to July 1, 2011. This indicates that the school is not compensating employees in accordance with their employment contracts.

We recommend that the School abide by all contracts.

Officials' Response:

The School did not wish to respond.

FINDING NUMBER 2012-02

Noncompliance

Ohio Rev. Code, Section 3314.03(A)(6)(b), requires that the governing authority adopt an attendance policy that includes a procedure for automatically withdrawing a student from the school if the student without a legitimate excuse fails to participate in 105 consecutive hours of the learning opportunities offered to the student. During the 2011-2012 school years, the School offered 6 hours of instruction per day; therefore, a student could not have missed more than 18 consecutive non-excused days before being considered withdrawn from the school.

School management is responsible for accurately entering and maintaining student information in the CSADM database. The student files maintained by the School should substantiate the date a student withdraws from the School. When a student withdraws from the School the student file should be updated with a withdrawal form to support the withdrawal date. During our review of student withdrawals the school was unable to provide withdrawal forms from the student file for 10 out of the 10 student's tested.

**FINDING NUMBER 2012-02
(Continued)**

We recommend that the School develop control procedures to ensure student files are complete and all documentation is current, accurate, and properly input into the CSADM database. In addition, the School should train employees on the procedures and monitor process regularly.

Officials' Response:

The School did not wish to respond.

**EAST END COMMUNITY HERITAGE SCHOOL
HAMILTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-01	Unpaid compensation	No	Reissued as Finding 2012-001
2011-02	Destruction of records	Yes	
2011-03	FFR for untimely withdrawals of students	Yes	

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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

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

To the Board of Directors:

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

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

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

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

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

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



Dave Yost
Auditor of State

March 29, 2013



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
APRIL 16, 2013**