W.C. CUPE COMMUNITY SCHOOL
Columbus, Ohio

Report on Audit of Financial Statements
And Supplementary Financial Information

For the years ended June 30, 2005 and 2004

Auditor of State
Betty Montgomery

Board of Governors
W. C. Cupe Community School
1132 Windsor Ave.
Columbus, Ohio 43211

We have reviewed the *Independent Auditors' Report* of the W. C. Cupe Community School, Franklin County, prepared by Schneider Downs & Co., Inc., for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

June 6, 2006

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INDEPENDENT AUDITORS' REPORT

W.C. Cupe Community School
Franklin County
1132 Windsor Avenue
Columbus, Ohio 43229

Board of Governors:

We have audited the accompanying basic financial statements of the W.C. Cupe Community School (the School) as of and for the year ended June 30, 2005 as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of W.C. Cupe Community School for the year ended June 30, 2004 were audited by other auditors, whose report dated February 11, 2005 expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School, as of June 30, 2005, and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 14, 2006 on our consideration of W.C. Cupe Community School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Schneider Downs & Co., Inc.
Columbus, Ohio
April 14, 2006

W.C. CUPE COMMUNITY SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

The discussion and analysis of the W.C. Cupe Community School's financial performance provides an overall view of the School's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the School's financial performance as a whole. Readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School's financial performance.

Financial Highlights

- Total assets were $359,570.
- Total liabilities were $439,632.
- Total net assets were ($80,062).

Using this Annual Financial Report

This report consists of three parts, the Management's Discussion and Analysis (MD&A), 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 change in net assets and statement of cash flows.

Statement of Net Assets

The Statement of Net Assets answers the question, "How did we do financially during 2005?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

Table 1 provides a summary of the School's net assets for fiscal year 2005 compared to fiscal year 2004:

Table 1
Net Assets

	2005	2004
Assets		
Current Assets	$ 87,227	$ 115,290
Capital Assets, Net	272,343	236,968
Total Assets	$ 359,570	$ 352,258
Liabilities		
Current Liabilities	$ 337,941	$ 268,774
Noncurrent Liabilities	101,691	16,245
Total Liabilities	439,632	285,019
Net Assets		
Invested in Capital Assets, Net of Related Debt	213,299	217,293
Unrestricted	(293,361)	(150,054)
Total Net Assets	$ (80,062)	$ 67,239

Total assets increased by $7,312, which represents a 2.1 percent increase from fiscal year 2004. While cash and cash equivalents increased by $20,524, total receivables decreased by $48,838. Total liabilities increased by $154,613, which represents a 54.3 increase from 2004. The School's net assets decreased by $147,301, which represents a 219.1 percent decrease from fiscal year 2004.

Table 2 shows the changes in net assets for fiscal year 2005 as compared to fiscal year 2004.

Table 2
Change in Net Assets

	2005	2004
Revenues		
Operating Revenues:		
Foundation Payments	$ 1,357,579	$ 1,094,459
Disadvantaged Pupil Impact Aid	321,664	253,775
Food Services	4,914	7,989
Classroom Fees	580	742
Extracurricular Activities	678	-
Other Operating Revenues	12,526	6,200
Non-Operating Revenues:		
Federal and State Grants	269,438	290,539
Gain on Disposal of Capital Asset	1,143	-
Contributions and Donations	-	1,365
Interest	129	143
Total Revenues	1,968,651	1,655,212
Expenses		
Operating Expenses		
Salaries	1,034,712	828,161
Fringe Benefits	242,486	225,465
Purchased Services	555,926	396,236
Materials and Supplies	218,084	200,972
Depreciation	33,620	23,264
Other Expenses	26,587	20,177
Non-Operating Expenses:		
Other Expenses	4,537	3,086
Total Expenses	2,115,952	1,697,361
Increase/(Decrease) in Net Assets	$ (147,301)	$ (42,149)

There was an increase in operating revenues of $334,776 and an increase in operating expenses of $417,140 from fiscal year 2004. Of the increase in revenues, the foundation payments increased by $263,120. Community Schools receive no support from tax revenues.

The expense for salaries increased by $206,551 and the expense for fringe benefits increased by $17,021 from fiscal year 2004. This was primarily due to a staff increase throughout the 2005 school year. Material and supplies expense increased by $17,112, due to additional material and supplies purchases. Depreciation expense increased by $10,356.

Capital Assets

At the end of fiscal year 2005, the School had $272,343 (net of $71,708 in accumulated depreciation) invested in buildings, leasehold improvements, furniture, fixtures and equipment. Table 3 shows fiscal year 2005 balances compared to fiscal year 2004:

Table 3
Capital Asset at June 30, 2005
(Net of Depreciation)

	2005	2004
Buildings	$ 91,780	$ 86,616
Furniture, Fixtures, and Equipment	73,030	43,018
Leasehold Improvements	107,533	107,334
Totals	$ 272,343	$ 236,968

For more information on capital assets, see Note 5 to the basic financial statements.

Debt

At June 30, 2005, the School had $59,044 in capital leases payable, $12,809 of which is due within one year. Table 4 summarizes the debt outstanding.

Table 4
Outstanding Debt, at Year End

	2005	2004
Capital Lease payable	$ 59,044	$ 19,675
Notes payable	-	40,000
Total Outstanding Debt	$ 59,044	$ 59,675

For more information on debt see Note 14 and 15 to the basic financial statements.

Current Financial Issues

The School was formed in fiscal year 2002. The School's financial relationship with the Lucas County Educational Service Center aids in the raising of the quality of financial records and strengthens internal controls. During the 2004-2005 school year, there were approximately 219 students enrolled in the School. The School receives its finances mostly from state aid. Per pupil aid for fiscal year 2005 amounted to approximately $5,058 per student.

Contacting the School's Financial Management

This financial report is designed to provide our citizens with 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 Ms. Christina Benson, Director of W.C. Cupe Community School, 1132 Windsor Avenue, Columbus, Ohio 43211 or e-mail at CBenson@wccupe.com.

W.C. CUPE COMMUNITY SCHOOL

STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2005 AND 2004

	June 30	
	2005	2004
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 34,357	$ 13,833
Receivables:		
Accounts	10,999	1,102
Intergovernmental	40,765	99,500
Prepaid Items	1,106	855
Total Current Assets	87,227	115,290
Capital Assets, Net of Accumulated Depreciation	272,343	236,968
Total Assets	$ 359,570	$ 352,258
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	$ 87,072	$ 26,600
Accrued Wages and Benefits Payable	144,254	134,792
Due to Students	564	564
Intergovernmental Payable	65,169	24,224
State Pensions Payable	27,131	38,276
Accrued Interest Payable	942	888
Capital Leases Payable	12,809	3,430
Notes Payable	-	40,000
Total Current Liabilities	337,941	268,774
NONCURRENT LIABILITIES		
Capital Leases Payable	46,235	16,245
Intergovernmental Payable	55,456	-
Total Noncurrent Liabilities	101,691	16,245
Total Liabilities	439,632	285,019
NET ASSETS		
Investment in Capital Assets, Net of Related Debt	213,299	217,293
Unrestricted	(293,361)	(150,054)
Total Net Assets	(80,062)	67,239
Total Liabilities and Net Assets	$ 359,570	$ 352,258

See notes to financial statements

W.C. CUPE COMMUNITY SCHOOL

STATEMENTS OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
OPERATING REVENUES		
Foundation Payments	$ 1,357,579	$ 1,094,459
Disadvantaged Pupil Impact Aid	321,664	253,775
Food Services	4,914	7,989
Classroom Fees	580	742
Extracurricular Activities	678	-
Other Operating Revenues	12,526	6,200
Total Operating Revenues	1,697,941	1,363,165
OPERATING EXPENSES		
Salaries	1,034,712	828,161
Fringe Benefits	242,486	225,465
Purchased Services	555,926	396,236
Materials and Supplies	218,084	200,972
Depreciation	33,620	23,264
Other Operating Expenses	26,587	20,177
Total Operating Expenses	2,111,415	1,694,275
Operating Loss	(413,474)	(331,110)
NON-OPERATING REVENUES AND (EXPENSE)		
Operating Grants - State	18,507	15,336
Operating Grants - Federal	250,931	275,203
Gain on Disposal of Capital Asset	1,143	-
Interest	129	143
Contributions and Donations	-	1,365
Interest and Fiscal Charges, net	(4,537)	(3,086)
Total Non-Operating Revenues	266,173	288,961
CHANGE IN NET ASSETS	(147,301)	(42,149)
NET ASSETS		
Beginning of year	67,239	109,388
End of year	$ (80,062)	$ 67,239

See notes to financial statements

W.C. CUPE COMMUNITY SCHOOL

STATEMENTS OF CASH FLOWS
FOR THE YEARS END JUNE 30, 2005 AND 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from State of Ohio	$ 1,807,861	$ 1,348,234
Cash Received from Other Operating Sources	18,698	13,908
Cash Payments to Suppliers for Goods and Services	(740,376)	(630,438)
Cash Payments to Employees for Services	(1,025,250)	(783,132)
Cash Payments for Employee Benefits	(235,793)	(197,581)
Net Cash Used By Operating Activities	(174,860)	(249,009)
CASH FLOWS FROM CAPITAL AND RELATED INVESTING ACTIVITIES		
Fixed Asset Purchases	(23,046)	(57,034)
Interest on Cash and Cash Equivalents	129	143
Net Cash Used By Capital And Related Investing Activities	(22,917)	(56,891)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating Grants Received - State	18,507	14,817
Operating Grants Received - Federal	249,714	258,116
Contributions and Donations	-	1,365
Net Cash Provided By Noncapital Financing Activities	268,221	274,298
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Loans	20,000	40,000
Principal Payments	(65,437)	(2,530)
Interest Payments	(4,483)	(2,198)
Net Cash Provided (Used) By Capital And Related Financing Activities	(49,920)	35,272
Net Increase in Cash and Cash Equivalents	20,524	3,670
CASH AND CASH EQUIVALENTS		
Beginning of year	13,833	10,163
End of year	$ 34,357	$ 13,833

W.C. CUPE COMMUNITY SCHOOL

STATEMENTS OF CASH FLOWS
FOR THE YEARS END JUNE 30, 2005 AND 2004

		2005		2004
Reconciliation of Operating Loss to Net Cash Used by Operating Activities				
Operating Loss	$	(413,474)	$	(331,110)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:				
Depreciation		33,620		23,264
Changes in Assets and Liabilities:				
Decrease in Receivables		50,055		5,870
Increase in Prepaid Items		(251)		(644)
Increase (Decrease) in Accounts Payable		60,472		(26,277)
Increase in Accrued Wages and Benefits Payable		9,462		55,893
Decrease in Compensated Absences Payable		-		(8,211)
Increase in Intergovernmental Payable		96,401		4,671
Increase (Decrease) in State Pension Payable		(11,145)		27,535
Net Cash Used by Operating Activities	$	(174,860)	$	(249,009)
Summary of Significant Non-Cash Investing and Financing Transactions:				
Acquisition of equipment via capital lease	$	63,713		

See notes to financial statements.

W.C. CUPE COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

NOTE 1 - DESCRIPTION OF THE REPORTING ENTITY

W.C. Cupe Community School (the School) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC). 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. Using a direct instruction approach in teaching the students, the School's mission is its commitment to the academic and social development of the students. Scholastic subjects such as math, language, reading and science are provided to students grades K through 6. The School, which is part of the State's education program, is independent of any school district and is non secular in its programs, admission policies, employment practices and all other operations. The School may acquire facilities as needed and contract for any services necessary for the operation of the School.

The School was approved for operation under a contract with the Ohio State Board of Education (the Sponsor) for a period of five years effective for the 2001-2002 academic school year. 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.

The School operates under the direction of a five-member Governing Board. The Governing Board 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 Governing Board controls the School's one instructional/support facility staffed by 24 non-certified and 18 certificated full time teaching personnel who provide services to 219 students.

The School has entered into a service agreement with the Lucas County Educational Service Center (LCESC), Lucas County, Ohio to provide certain financial and accounting services and the Treasurer of LCESC serves as the Chief Financial Officer of the School (See Note 12).

On May 1, 2003, Education Solutions Company and the School entered into a three year contract that requires Educational Solutions Company to manage and operate the School. Educational Solutions Company was established, on behalf of the School, as an Ohio nonprofit corporation to provide support to the School, including management of its operations. It is tax-exempt under IRC Section 501(c)(3) and qualifies as a related organization, as that term is defined in IRC Section 509(a)(3) and the Treasurer regulations promulgated there under. To enable Education Solutions Company to qualify as a related organization, its Code of Regulations provides that three of its five Board Members serve by virtue of the fact that they are on the Board of the School. As a consequence, the School controls Educational Solutions Company and is able to ensure that it is operated for the benefit of the School and it abides by its contract.

NOTE 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, provided they do not conflict with or contradict GASB pronouncements. The School has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989. Following are the more significant of the School's accounting policies.

Basis of Presentation - The School's basic financial statements consist of a statement of net assets; a statement of revenues, expenses and change in net assets and a statement of cash flows. Enterprise fund reporting focuses on the determination of the change in net assets, financial position and cash flows.

Enterprise Accounting - The School uses enterprise accounting to track and report its financial activities. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or change in net assets is appropriate for public policy, management control, accountability or other purposes.

Measurement Focus - Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statements of net assets. The statement of revenues, expenses and change in net assets presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets. The statement of cash flow provides information about how the School finances and meets the cash flow needs of its enterprise activities.

Basis of Accounting - The basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The School's financial statements are prepared using the accrual basis of accounting. Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded when the exchange takes place. Revenues resulting from non-exchange transactions, in which the School receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use if first permitted, matching requirements, in which the School must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. Expenses are recognized at the time they are incurred.

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 5-year forecast, which is to be updated on an annual basis.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Investments - Cash held by the school is reflected as "Cash and Cash Equivalents" on the statement of net assets. All monies received by the School are accounted for by the School's fiscal agent, LCESC. All cash received by the fiscal agent is maintained in separate accounts in the School's name. Monies for the School are maintained in these accounts or temporarily used to purchase short-term investments.

For presentation on the financial statements, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by LCESC 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.

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

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

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful life of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Estimated Lives
Buildings	40 years
Furniture, Fixtures, and Equipment	5 years
Leasehold Improvements	15 years

Intergovernmental Revenues - The School currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid (DPIA) Program and the State Special Education Program. Revenues from these programs are recognized as operating revenues (foundation payments) in the accounting period in which they are earned and become measurable. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Amounts awarded under the above named programs for the years ended June 30, 2005 and 2004 totaled $1,937,683 and $1,638,773, respectively.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prepaid Items - Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expense in the year in which services are consumed.

Net Assets - Net assets represent the difference between assets and liabilities. Net Assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, 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.

Operating Revenues and Expenses - Operating revenues are those revenues that are generated directly from the primary activities. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the School. Revenues and expenses not meeting this definition are reported as non-operating.

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

Extraordinary and Special Items - Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Governing Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the year ended June 20, 2005.

NOTE 3 - DEPOSITS

At June 30, 2005, the carrying amount of the School's deposits was $34,357 and the bank balance was $60,782. The bank balance was covered by Federal Depository Insurance Corporation (FDIC).

NOTE 4 - RECEIVABLES

Receivables at June 30, 2005 and 2004 consisted of receivables from the fiscal agent and management company arising from an overpayment to them and intergovernmental receivables arising from grants, entitlement and shared revenues. All accounts receivable as of June 30, 2005 were received subsequent to year end and all intergovernmental receivables are considered collectable in full. A summary of the principal items of receivables follows:

Receivables	2005	2004
Accounts	$ 10,999	$ 1,102
Intergovernmental		
FY04 SB-2 DPIA	$ -	$ 59,952
Federal School Breakfast & Lunch	16,025	-
Student Intervention GR 1-4	3,886	519
Title I	12,555	31,156
Title IIA	2,538	6,009
Title IID	4,612	1,864
Title V	1,149	-
Total Government Receivables	40,765	99,500
	$ 51,764	$ 100,602

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Cost at 6/30/04	Additions	Disposals	Cost at 6/30/05
Buildings	$ 91,296	$ 7,638	$ -	$ 98,934
Furniture, Fixtures and Equipment	63,251	69,983	22,205	111,029
Leasehold Improvements	124,950	9,138	-	134,088
Total Capital Assets Being Depreciated	279,497	86,759	22,205	344,051
Less Accumulated Depreciation:				
Buildings	4,680	2,474	-	7,154
Furniture, Fixtures and Equipment	20,233	22,207	4,441	37,999
Leasehold Improvements	17,616	8,939	-	26,555
Total Accumulated Depreciation	42,529	33,620	4,441	71,708
Capital Assets, Net of Accumulated Depreciation	$ 236,968	$ 53,139	$ 17,764	$ 272,343

NOTE 6 - RISK MANAGEMENT

Insurance Coverage - 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 the year ended June 30, 2005, the School contracted with State Farm Insurance for its insurance coverage as follows:

General Liability per occurrence ($1,000 Deductible)	$1,000,000
General Liability aggregate	$2,000,000
Medical Payments	$ 5,000
Products-Completed Operations	$2,000,000

Workers' 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.

NOTE 7 - DEFINED BENEFIT PENSION PLANS

School Employees Retirement System - The School contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14% of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The School's required contributions to SERS for the fiscal years ended June 30, 2005 and 2004 was $66,180 and $52,198, respectively. There were unpaid contributions of $25,277 and $8,069 at the end of fiscal year 2005 and 2004, respectively, which is included in the statement of net assets as benefits payable.

State Teachers Retirement System - The School contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090, or by visiting the STRS website at www.strsoh.org.

NOTE 7 - DEFINED BENEFIT PENSION PLANS (Continued)

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

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

Plan members are required to contribute 10% of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14% of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2005 and 2004, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The School's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2005 and 2004 was $36,962 and $57,441, respectively. There were unpaid contributions of $1,854 and $30,207 at the end of fiscal year 2005 and 2004, respectively, which is included in the statement of net assets as benefits payable.

NOTE 8 - POSTEMPLOYMENT BENEFITS

The School provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS.

NOTE 8 - POSTEMPLOYMENT BENEFITS (Continued)

Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the School, this amount equaled $5,034 and $574 during fiscal 2005 and 2004, respectively. STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was $3.1 billion at June 30, 2004 (the latest information available). For the fiscal year ended June 30, 2004 (the latest information available), net health care costs paid by STRS were $268.739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who qualify. For fiscal year 2005, employer contributions to fund health care benefits were 3.43% of covered payroll.

In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at $27,400. For the School, the amount to fund health care benefits, including surcharge, equaled $39,108 and $24,837 during the 2005 and 2004 fiscal years, respectively. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 (the latest information available) were $223.444 million and the target level was $335.2 million. At June 30, 2004, (the latest information available) SERS had net assets available for payment of health care benefits of $300.8 million and SERS had approximately 62,000 participants receiving health care benefits.

NOTE 9 - OTHER EMPLOYEE BENEFITS

Employee Medical, Dental and Vision Benefits - The School has contracted through an independent agent to provide employee medical, dental and vision insurance to its full-time employees who work 35 or more hours per week.

NOTE 10 - STATE SCHOOL FUNDING DECISION

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

The School is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

NOTE 11 - CONTINGENCIES

Grants - The School receives significant financial assistance from numerous 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the operating fund. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements included herein or on the overall financial position of the School at June 30, 2005.

Pending Litigation - A suit was filed in Franklin County common Pleas Court on May 14, 2001, alleging Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. On April 21, 2003, the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard on November 18th, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are a part of the state public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. No oral argument date has been set. The effect of this suit, if any, on the School is not presently determinable.

School Funding - The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. ODE has conducted a review of the School's fiscal year 2005 student enrollment data and FTE calculations. Based on the results of the review, the School was overpaid $78,563 for the fiscal year ended June 30, 2005. The ODE will collect this overpayment by reducing the payments to the School from February 2006 through June 2007.

NOTE 12 - FISCAL AGENT

The School entered into a service agreement with the Treasurer of the LCESC to serve as the Chief Fiscal Officer of the School. As part of this agreement, the School compensates LCESC two percent (2%) of the per pupil allotment paid to the School from the State of Ohio. Total contract payments of $34,457 and $21,632 were paid during the year ended 2005 and 2004, respectively, and a net liability in the amount of $2,126 and $3,954 was accrued for the years ended June 30, 2005 and 2004, respectively.

NOTE 12 - FISCAL AGENT (Continued)

The Treasurer shall perform all of the following functions while serving as the Chief Fiscal Officer of the School:

- Maintain custody of all funds received by the School in segregated accounts separate from LCESC or any other Community School's funds;
- Maintain all books and accounts of the School;
- Maintain all financial records of all state funds of the School and follow State Auditor procedures for receiving and expending state funds;
- Assist the School in meeting all financial reporting requirements established by the State Auditor;
- Invest funds of the School in the same manner as the funds of LCESC are invested, but the Treasurer shall not commingle the funds with any of LCESC or any other community school; and
- Pay obligations incurred by the School within a reasonable amount of time, not more than 14 calendar days after receipt of a properly executed voucher signed by the Chief Administrative Officer of the School so long as the proposed expenditure is within the approved budget and funds are available.

NOTE 13 - PURCHASED SERVICES

For the period ended June 30, 2005 and 2004, purchased services rendered by various vendors, was as follows:

	2005	2004
Professional and Technical Services	$ 382,042	$ 264,934
Property Services	64,448	32,875
Travel Mileage/Meeting Expenses	41,505	49,643
Communications	32,455	30,222
Utilities	17,285	18,562
Contracted Craft or Trade Services	18,191	-
	$ 555,926	$ 396,236

NOTE 14 - DEBT

Debt outstanding for the School as of June 30, 2005 was as follows:

	Principal Outstanding 06/30/04	Additions	Reductions	Principal Outstanding 06/30/05
General Note	$ 40,000	$ 20,000	$ 60,000	$ -

The general note from National City Bank is a line of credit issued on January 21, 2004, with an available balance of $75,000. The terms of the note have no maturity date defined, but the note is due on demand. The interest rate on this line of credit is variable, based on one percent over the prime rate (6.25% at June 30, 2005). Interest paid on the note amounted to $938 and $0 for the years ended June 30, 2005 and 2004, respectively. Subsequent to June 30, 2005, $38,000 was borrowed from this general note.

NOTE 15 - CAPITALIZED LEASES - LESSEE DISCLOSURE

The School entered into capitalized leases for the acquisition of copier equipment. These leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risk of ownership to the lessee. These capital leases have been recorded as capital assets at the present value of minimum lease payments as of the inception date. As a result, the School paid $7,406 and $4,728 in principal and interest for the years ending June 30, 2005 and 2004, respectively.

Fiscal Year Ending June 30,	Principal	Interest	Total
2006	$ 12,809	$ 5,043	$ 17,852
2007	12,182	3,928	16,110
2008	13,409	2,701	16,110
2009	14,760	1,349	16,109
2010	5,884	134	6,018
	$ 59,044	$ 13,155	$ 72,199

NOTE 16 - OPERATING LEASES - LESSEE DISCLOSURE

On May 1, 2003 and June 1, 2004, the School entered into two lease agreements with Greater Liberty Temple Church for use of space on the properties located at 1132 and 1111 Windsor Avenue. The leases will terminate June 30, 2006 and May 31, 2009, respectively. The lease ending June 30, 2006 has no option to renew, however, the lease ending June 30, 2009 has an option to extend the lease for two additional renewal terms of five years each. Under the lease agreements, rent charges are $2,500 and $2,000 a month. Rent expense for the fiscal year ended June 30, 2005 was $54,000. The amount of $18,000 was accrued as a liability at June 30, 2005.

Another agreement is held by the School with Storage USA 438 for use of two storage units during the year. The agreements are set up on a month-to-month basis and can be terminated at anytime. The lease expense was $4,203.

The following is a schedule of the future minimum payments required under the operating leases as of June 30, 2005:

Fiscal Year Ending June 30,	Facility Lease
2006	$ 54,000
2007	24,000
2008	24,000
2009	24,000
	$126,000

NOTE 17 - SUBSEQUENT EVENT

On September 1, 2005, the School entered into a lease agreement with Rhema Christian Center for the use of the facilities located at 2100 Agler Road. The lease terminates on August 31, 2006 and is renewed on a year-to-year basis. Under the lease agreement, the rent charge is $4,000 a month.

NOTE 18 - RELATED PARTY

Two of the founding board members also serve on the board of the management company the School founded as a tax-exempt charitable and educational organization that was organized and is operated to support the School as an IRC Section 509(a)(3) supporting organization, Educational Solutions Company. The school paid the management company $209,616 and $161,787 for the year ended June 30, 2005 and 2004, respectively.

NOTE 19 - TAX EXEMPT STATUS

The school was approved under section 501(c)(3) of the IRC as a tax exempt organization on December 7, 1999. 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.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL RERPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

W.C. Cupe Community School
Franklin County
1132 Windsor Avenue
Columbus, Ohio 43229

To the Governing Board:

We have audited the accompanying basic financial statements of W.C. Cupe Community School as of and for the year ended June 30, 2005, and have issued our report thereon dated April 14, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered W.C. Cupe Community School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether W.C. Cupe Community School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Schneider Downs & Co., Inc.

Columbus, Ohio
April 14, 2006

Auditor of State
Betty Montgomery

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P.O. Box 1140
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Facsimile 614-466-4490

W.C. CUPE COMMUNITY SCHOOL

FRANKLIN 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 20, 2006