W.C. CUPE COMMUNITY SCHOOL
Columbus, Ohio

Financial Statements
and
Supplementary Financial Information
For the years ended June 30, 2007 and 2006

and Independent Auditors' Report Thereon

Mary Taylor, CPA
Auditor of State

Board of Governors
W. C. Cupe Community School
1132 Windsor Avenue
Columbus, Ohio 43211-2836

We have reviewed the *Independent Auditor's Report* of the W. C. Cupe Community School, Franklin County, prepared by Schneider Downs & Co., Inc., for the audit period July 1, 2006 through June 30, 2007. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

May 1, 2008

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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 statements of net assets of the W.C. Cupe Community School (the School) as of and for the years ended June 30, 2007 and 2006 and the related statements of revenues and expenses, statements of changes in net assets (accumulated deficit) and statements of cash flows for the years then ended. 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 audits.

We conducted our audits 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 audits 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 audits provide 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, 2007 and 2006 and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3 to the financial statements, an understatement of previously reported liabilities and expenses as of June 30, 2006 was discovered during the current year. Accordingly, the 2006 financial statements have been restated.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2008 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 audits.

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Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

SCHNEIDER DOWNS & CO., INC.

Columbus, Ohio
February 15, 2008

W.C. CUPE COMMUNITY SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2006

The discussion and analysis of the W.C. Cupe Community School's (the School) financial performance provides an overall view of the School's financial activities for the fiscal years ended June 30, 2007 and 2006. 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.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Government. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

- Total assets at June 30, 2007 were $437,332
- Total liabilities were $728,835
- Total accumulated deficit was ($291,503)
- Total operating revenues for fiscal year 2007 were $2,133,789
- Total non-operating revenues for fiscal year 2007 were $524,948
- Total expenses were $2,396,864

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 and expenses, statement of changes in net assets, and statement of cash flows.

These statements include 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.

These statements report the School's net assets. However, in evaluating the overall position and financial viability of the School, nonfinancial information such, as potential changes in the laws governing charter schools in the State of Ohio, will also need to be evaluated.

Table 1 provides a summary of the School's net assets for fiscal year 2007 compared to fiscal year 2006:

Table 1
Net Assets

	2007	2006 (As Restated)
Assets		
Current assets	$ 201,788	$ 127,465
Capital assets, Net	235,544	268,566
Total Assets	437,332	396,031
Liabilities		
Current liabilities	708,190	751,674
Noncurrent liabilities	20,645	197,733
Total Liabilities	728,835	949,407
Net Assets (Accumulated Deficit)		
Invested in capital assets, net of related debt	200,430	218,524
Restricted for grants	109,985	62,137
Unrestricted	(601,918)	(834,037)
Total Accumulated Deficit	$ (291,503)	$ (553,376)

As discussed in Note 3 to the financial statements, the School has restated its previously issued June 30, 2006 financial statements for matters related to unrecorded accounts payable and state pensions payable. The effect of the restatement is reflected in the accompanying financial data as an increase in current liabilities of approximately $155,000 and increases to certain expense lines: purchased services $102,500, fringe benefits $36,000, materials and supplies $2,500, and other expenses $14,000. The impact of the prior period adjustment resulted in a decrease in net assets of approximately $155,000.

Total assets increased by $41,301, which represents a 10.4 percent increase from fiscal year 2006. The cash and intergovernmental grants receivables increased by $16,868 and $47,848, respectively, while net capital assets decreased by $33,022. The majority of the increase in intergovernmental receivables was related to the Charter School Dissemination Grant awarded to the School during fiscal year 2007. The decrease in capital assets, net of accumulated depreciation, was due to current-year depreciation expense of $39,875, which was offset by capital asset additions of $6,853. Total liabilities decreased by $220,572, which represents a 19.13 percent decrease from 2006. The most significant portion of the decrease (approximately $114,000) is the result of management fees payable to the management company, which were forgiven in the current year. In addition, accrued wages and benefits payable decreased $40,129, which is mainly due to staff reductions during the 2007 fiscal year. The School's net assets increased by $261,873, which represents an increase of 47.32 percent from fiscal year 2006.

Table 2 shows the changes in net assets for fiscal year 2007 as compared to fiscal year 2006:

Table 2
Change in Net Assets

	2007	2006 (As Restated)
Revenues		
Operating Revenues:		
Foundation payments	$ 1,543,845	$ 1,487,731
Disadvantaged pupil impact aid	422,541	330,540
Food services	-	349
Instructional charges for services	154,526	-
Other operating revenues	12,877	14,565
Non-Operating Revenues:		
Federal and state grants	524,936	591,028
Contributions and donations	12	10,050
Interest	-	147
Total Revenues	2,658,737	2,434,410
Expenses		
Operating Expenses:		
Salaries	1,279,562	1,453,741
Fringe benefits (as restated)	329,959	372,326
Purchased services (as restated)	593,452	866,311
Materials and supplies (as restated)	65,668	132,751
Depreciation	39,875	41,197
Bad debt expense	9,895	-
Other expenses (as restated)	45,227	26,130
Non-Operating Expenses:		
Loss on disposal of capital asset	-	470
Other expenses	33,226	14,798
Total Expenses	2,396,864	2,907,724
Change In Net Assets (Accumulated Deficit)	$ 261,873	$ (473,314)

There was an increase in revenues of $224,327 and a decrease in expenses of $510,860 from fiscal year 2006. Of the increase in revenues, the foundation basic aid payments increased by $148,115 as a result of increased student count and an increase in the monthly funding allowance per pupil. State grants decreased by $20,000 as a result of the loss of an Ohio Reads Grant. Federal grants had a net decrease of approximately $46,000, which is the result of funding from six grants decreasing by approximately $134,000 and two grants increasing by approximately $88,000. Instructional charges for services increased by $154,526, as this was not a revenue source in the prior year. Community schools receive no support from tax revenues.

The expense for salaries decreased by $174,179, and the expense for fringe benefits decreased $42,367 from fiscal year 2006. This was primarily due to staffing reductions throughout the 2007 school year. The material and supplies expense account increased by $67,083, the depreciation expense account decreased by $1,322, and purchased services decreased by $272,859 primarily due the decrease in expenses with the management company of approximately $175,000 ($114,000 of which was forgiven management fees from Ed. Solutions). There was also a reduction in expenses for building leases and contracts with consultants.

Capital Assets

At the end of fiscal year 2007, the School had $235,544 (net of $150,898 in accumulated depreciation) invested in buildings, leasehold improvements, furniture, fixtures, and equipment. Table 3 shows fiscal year 2007 balances compared to fiscal year 2006:

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

	2007	2006
Buildings	$ 86,833	$ 89,306
Furniture, fixtures and equipment	59,057	80,666
Leasehold improvements	89,654	98,594
Totals	$ 235,544	$ 268,566

For more information on capital assets, see Note 6 to the basic financial statements.

Debt

At June 30, 2007, the School had $201,614 in total outstanding debt, $180,969 of which is due within one year. Table 4 summarizes the debt outstanding.

Table 4
Outstanding Debt, at June 30

	2007	2006
Line of credit (National City)	$ 73,500	$ 73,500
Line of credit (Education Sol.)	93,000	93,000
Capital lease payable	35,114	50,042
Total Outstanding Debt	$ 201,614	$ 216,542

For more information on debt see Notes 15 and 16 to the basic financial statements.

Current Financial Issues

The School was formed in fiscal year 2001. The School's financial relationship with Mangen & Associates aids in raising the quality of financial records and strengthening internal controls. The focus for the first year for Mangen & Associates was to transition from the financial practices of the past to proven fiscal policies and procedures that are designed to increase the checks and balances within the financial operations and to improve the overall fiscal health of the School. The focus for the current fiscal year (FY08) is to fine tune the internal controls as articulated on pages 30 - 33 of this report.

During the 2006-2007 school year, there were approximately 306 students enrolled in the School. The School receives its finances mostly from state aid. Per pupil aid for fiscal year 2007 amounted to $5,403 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 the Treasurer of W.C. Cupe Community School, 1132 Windsor Avenue, Columbus, Ohio 43211.

W.C. CUPE COMMUNITY SCHOOL

STATEMENTS OF NET ASSETS (ACCUMULATED DEFICIT)
AS OF JUNE 30, 2007 AND 2006

	June 30	
	2007	2006 (As Restated)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 71,132	$ 54,264
Receivables:		
Trade	-	9,895
Intergovernmental	109,985	62,137
Educational solutions	20,671	-
Prepaid expenses	-	1,169
Total Current Assets	201,788	127,465
CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION	235,544	268,566
Total Assets	$ 437,332	$ 396,031
LIABILITIES AND NET ASSETS (ACCUMULATED DEFICIT)		
CURRENT LIABILITIES		
Accounts payable	$ 290,518	$ 330,647
Accrued wages and benefits payable	174,182	229,877
Intergovernmental payable	49,275	59,817
State pensions payable	12,964	40,282
Accrued interest payable	282	1,562
Capital leases payable	14,469	15,989
Note payable - Line of credit	73,500	73,500
Note payable - Education solutions	93,000	-
Total Current Liabilities	708,190	751,674
NONCURRENT LIABILITIES		
Note payable - Education solutions	-	93,000
Capital leases payable	20,645	34,053
Intergovernmental payable	-	70,680
Total Noncurrent Liabilities	20,645	197,733
Total Liabilities	728,835	949,407
NET ASSETS (ACCUMULATED DEFICIT)		
Investment in capital assets, net of related debt	200,430	218,524
Unrestricted	(601,918)	(834,037)
Restricted	109,985	62,137
Total Accumulated Deficit	(291,503)	(553,376)
Total Liabilities and Net Assets	$ 437,332	$ 396,031

See notes to financial statements

W.C. CUPE COMMUNITY SCHOOL

STATEMENTS OF REVENUES AND EXPENSES
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006 (As Restated)
OPERATING REVENUES		
Foundation payments	$ 1,543,845	$ 1,487,731
Disadvantaged pupil impact aid	422,541	330,540
Food services	-	349
Instructional charges for services	154,526	-
Other operating revenues	12,877	14,565
Total Operating Revenues	2,133,789	1,833,185
OPERATING EXPENSES		
Salaries	1,279,562	1,453,741
Fringe benefits (as restated)	329,959	372,326
Purchased services (as restated)	593,452	866,311
Materials and supplies (as restated)	65,668	132,751
Depreciation	39,875	41,197
Bad debt expense	9,895	-
Other operating expenses (as restated)	45,227	26,130
Total Operating Expenses	2,363,638	2,892,456
Operating Loss	(229,849)	(1,059,271)
NON-OPERATING REVENUES AND (EXPENSE)		
Operating grants - State	36,713	57,498
Operating grants - Federal	488,223	533,530
Loss on disposal of capital asset	-	(470)
Interest	-	147
Bad debt expense	(22,531)	-
Contributions and donations	12	10,050
Interest and fiscal charges, net	(10,695)	(14,798)
Total Non-Operating Revenues	491,722	585,957
Change In Net Assets (Accumulated Deficit)	$ 261,873	$ (473,314)

See notes to financial statements

W.C. CUPE COMMUNITY SCHOOL

STATEMENTS OF CHANGES IN NET ASSETS (ACCUMULATED DEFICIT) FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

		Net Assets (Accumulated Deficit)
BALANCE, June 30, 2006, as previously reported	$	(398,084)
Prior period adjustment - See Note 3		(155,292)
BALANCE, June 30, 2006, as restated		(553,376)
Change in net assets for the year ended June 30, 2007		261,873
BALANCE, June 30, 2007	$	(291,503)

See notes to the financial statements.

W.C. CUPE COMMUNITY SCHOOL

STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS END JUNE 30, 2007 AND 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from State of Ohio	$ 1,883,832	$ 1,865,843
Cash received from other operating sources	12,877	14,914
Cash received from instructional charges for services	154,526	-
Cash payments to suppliers for goods and services	(763,414)	(853,117)
Cash payments to employees for services	(1,344,589)	(1,415,037)
Cash payments for employee benefits	(347,177)	(277,979)
Net Cash Used In Operating Activities	(403,945)	(665,376)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on cash and cash equivalents	-	147
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating grants received - State	22,729	38,853
Operating grants received - Federal	431,828	530,803
Contributions and donations	12	10,050
Net Cash Provided By Noncapital Financing Activities	454,569	579,706
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Fixed-asset purchases	(6,853)	(37,890)
(Payments on) proceeds from notes and capital leases, net	(14,928)	157,498
Interest payments	(11,975)	(14,178)
Net Cash (Used In) Provided By Capital And Related Financing Activities	(33,756)	105,430
Net Increase In Cash And Cash Equivalents	16,868	19,907
CASH AND CASH EQUIVALENTS		
Beginning of year	54,264	34,357
End of year	$ 71,132	$ 54,264

See notes to financial statements.

W.C. CUPE COMMUNITY SCHOOL

STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS END JUNE 30, 2007 AND 2006

	2007	2006
Reconciliation of Operating Loss to Net Cash Used by Operating Activities		
Operating Loss	$ (229,849)	$ (1,059,271)
Adjustments to Reconcile Operating Loss To Net Cash Used by Operating Activities:		
Depreciation	39,875	41,197
Forgiveness of management fees	(113,561)	-
Changes in assets and liabilities:		
Receivables	(10,776)	1,104
Prepaid items	1,169	(63)
Accounts payable	73,432	243,011
Accrued wages and benefits payable	(55,695)	85,623
Intergovernmental payable	(81,222)	9,872
State pension payable	(27,318)	13,151
Net Cash Used In Operating Activities	$ (403,945)	$ (665,376)

See notes to financial statements.

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 8. The School, which is part of the State of Ohio'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 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 contact was extended and assigned to St. Aloysius Orphanage during the fiscal year ended June 30, 2006, and renews annually every June 30th unless cancelled by either party with 90 days' notice.

The School is required to operate under the direction of a Governing Board consisting of at least five members. 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 noncertificated and 19 certificated full-time teaching personnel who provide services to 306 students.

The School has entered into a service agreement with Mangen & Associates to provide certain financial and accounting services, including the performance of all duties required of the Treasurer of the School (Note 13). In the prior year, this agreement was with the Lucas County Educational Service Center.

On May 1, 2003, the School and Educational Solutions Co. entered into a three-year consulting contract that was renewable for successive one-year periods. On March 28, 2007, the School and Educational Solutions Co. entered into a full-performance management contract. Under this contract, Educational Solutions Co. is obligated to manage and operate the School. Educational Solutions Co. is an Ohio nonprofit corporation that was established and is operated for educational purposes to support Ohio community schools. It was granted federal tax exemption under IRS Section 501(c)(3), and it is classified as a public charity under IRC Section 509(a)(3), a supporting organization. In addition to the School, Educational Solutions Co. currently supports three other Ohio community schools. Each of its supported schools are members of Educational Solutions Co., as such term is defined by Ohio Revised Code Chapter 1702. As members of Educational Solutions Co., the schools, under Educational Solutions Co.'s Code of Regulations, elect a majority of the Board of Directors of Educational Solutions Co. As a result of this relationship, Educational Solutions Co. is "operated, supervised, or controlled by" its supported schools, as such term is defined by Regs. Section 1.509(a)-4(g), and Educational Solutions Co. is a Type I supporting organization. As a result of this relationship, Educational Solutions Co. is responsive to the needs and demands of its supported schools and is an integral part of their operations.

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 and expenses and statement of change in net assets present 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 - 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. Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is 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, Mangen & Associates. All cash received by the fiscal agent is maintained in separate accounts in the School's name. For internal accounting purposes, the School segregates it cash into separate funds.

Capital Assets - Capital assets are recorded at 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. The School maintains a capitalization threshold of $1,000.

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.

Net Assets - Net assets represent the difference between assets and liabilities. Investment 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 creditor, grantor, or laws or regulations of other governments. The School applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Operating Revenues and Expenses - Operating revenues are those revenues that are generated directly from the School's primary activities. Operating revenues include revenues paid through the State Foundation Program and revenue from instructional charges for services, which are fees the School charges other community schools for the use of instructional and support staff members. Operating expenses are necessary costs incurred to provide the goods or services comprising the primary activity of the School. Revenues and expenses not meeting this definition are reported as non-operating.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Non-Operating Revenues and Expenses - Non-operating revenues and expenses are those that are not generated directly by the School's primary mission. Various federal and state operating grants and donations made to the School comprise the non-operating revenues of the School. Interest, bad debt expense and fiscal charges on outstanding obligations comprise the non-operating expenses.

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.

Reclassifications - Certain amounts in the June 30, 2006 financial statements have been reclassified to conform to the current year presentation.

NOTE 3 - PRIOR PERIOD ADJUSTMENT

The School has restated its previously issued June 30, 2006 financial statements for matters related to unrecorded accounts payable and state pensions payable. The effect of the restatement is reflected in the accompanying financial statements as an increase in current liabilities of approximately $155,000 and increases to certain expense lines: purchased services $102,500, fringe benefits $36,000, materials and supplies $2,500, and other expenses $14,000. The impact of the prior-period adjustment resulted in a decrease in net assets of approximately $155,000.

NOTE 4 - CASH AND CASH EQUIVALENTS

At June 30, 2007 and 2006, the carrying amount of the School's deposits was $71,132 and $54,264, respectively, and the bank balance was $169,942 and $119,168, respectively. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2007 and 2006, $67,592 and $16,609, respectively, of the bank balance was exposed to custodial risk as discussed below, while $102,350 and $102,559, respectively, was covered by the Federal Depository Insurance Corporation.

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% 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.

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 of all public monies deposited in the financial institution whose market value at all times shall be at least 105% of the deposits being secure. The School had no policy for custodial risk beyond the requirements of State statute.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2007 and 2006 consisted of receivables from the fiscal agent and management company arising from an overpayment to them and other services purchased on their behalf and intergovernmental receivables arising from grants, entitlement and shared revenues. All accounts receivable as of June 30, 2007 are considered to be collectable in full. A summary of the principal items of receivables follows:

Receivables	2007	2006
Trade	-	$ 9,895
Educational Solutions	$ 20,671	-
Intergovernmental		
Federal School Breakfast and Lunch	$ 41,711	$ 22,080
Title I	10,596	-
Title IIA	-	9,825
Dissemination Grant	35,669	-
Ohio Reads	13,984	4,532
Ohio Reads Volunteer	-	18,000
IDEA - B	8,025	7,700
Total Government Receivables	109,985	62,137
	$ 130,656	$ 72,032

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007 was as follows:

	Balance June 30, 2006	Additions	Deductions	Balance June 30, 2007
Capital Assets Being Depreciated:				
Buildings	$ 98,934	-	-	$ 98,934
Furniture, fixtures and equipment	146,567	$ 6,853	-	153,420
Leasehold improvements	134,088	-	-	134,088
Total Capital Assets being Depreciated	379,589	6,853	-	386,442
Less Accumulated Depreciation:				
Buildings	9,628	2,473	-	12,101
Furniture, fixtures and equipment	65,901	28,462	-	94,363
Leasehold improvements	35,494	8,940	-	44,434
Total Accumulated Depreciation	111,023	39,875	-	150,898
Capital Assets, Net of Accumulated Depreciation	$ 268,566	$ (33,022)	-	$ 235,544

NOTE 7 - 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, 2007, 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	$ 15,000
Products-Completed Operations	$2,000,000

There were no significant changes in insurance coverage, and the School's settlements did not exceed insurance coverage for each of the past three years.

Workers' Compensation - The School pays the State Workers' 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 8 - 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 (800) 878-5853. It is also posted on the SERS's website, www.ohsers.org, under Forms and Publications.

For the fiscal year ended June 30, 2007, plan members were required to contribute 10% of their annual covered salary, and the School was required to contribute an actuarially determined rate. The employer rate for fiscal year 2007 was 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. For fiscal year 2007, 10.68% was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The adequacy of the contribution rates is determined annually. The School's required contribution to SERS for the fiscal years ended June 30, 2007, 2006 and 2005 were $134,537, $93,252 and $66,180, respectively; 100% has been contributed for fiscal each of the years.

State Teachers Retirement System - The School contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple-employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, community school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

Plan Options - New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, the member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

DB Plan Benefits - Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of services credit regardless of age. The annually retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%.

NOTE 8 - DEFINED BENEFIT PENSION PLANS (Continued)

An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits - Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. 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. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. 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.

Combined Plan Benefits - Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offer by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. Effective April 11, 2005, a reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3% of the original base amount for Defined Benefit Plan participants.

The Defined Benefit and Combined Plans offer access to healthcare coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, healthcare benefits are not guaranteed.

NOTE 8 - DEFINED BENEFIT PENSION PLANS (Continued)

A Defined Benefit 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. A death benefit of $1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to $2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contributions rate are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2007 were 10% of covered payroll for members and 14% for employers. The School's required contribution for pension obligations for the fiscal years ended June 30, 2007, 2006 and 2005 were $99,356, $102,738 and $36,962, respectively; 100% has been contributed for fiscal years 2007, 2006 and 2005.

STRS Ohio issues a stand-alone financial report. Copies of STRS Ohio 2007 *Comprehensive Annual Financial Report* will be available after December 26, 2007. Additional information or copies of STRS Ohio's 2007 *Comprehensive Annual Financial Report* can be requested by writing to STRS Ohio, 275 E. Broad St., Columbus, Ohio 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

NOTE 9 - POSTEMPLOYMENT BENEFITS

School Employees Retirement System - The Ohio Revised Code gives SERS the discretionary authority to provide postretirement healthcare to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their healthcare 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 25% for those who qualify.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing healthcare benefits. At June 30, 2007, the healthcare allocation was 3.32%. In addition, SERS levies a surcharge to fund healthcare 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 2007, the minimum pay was established at $35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the healthcare fund.

Healthcare benefits are financed on a pay-as-you-go basis. Net healthcare costs for the year ended June 30, 2007 were $127,615,614. The target level for the healthcare fund is 150% of the projected claims less premium contributions for the next fiscal year. As of June 30, 2007, the value of the healthcare fund was $386.3 million, which is about 235% of next year's projected net healthcare costs. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a healthcare reserve equal to at least 150% of estimated annual net claim costs. The number of recipients currently receiving benefits is 55,818.

NOTE 9 - POSTEMPLOYMENT BENEFITS (Continued)

State Teachers Retirement System - STRS Ohio provides access to healthcare coverage to retirees who participated in the Defined Benefit or Combined Plans and their dependents. Coverage under the current plan includes hospitalization, physicians' fees prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code (R.C.) the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the associated healthcare costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the healthcare cost in the form of a monthly premium.

The R.C. grants authority to STRS Ohio to provide healthcare coverage to eligible benefit recipients, spouses and dependents. By Ohio Law, healthcare benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which healthcare benefits are paid. For fiscal year June 30, 2007 and June 30, 2006, the board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was $4.1 billion on June 30, 2007.

For the fiscal year ended June 30, 2007, net healthcare costs paid by STRS Ohio were $265,558,000. There were 122,934 eligible benefit recipients.

NOTE 10 - 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 11 - STATE SCHOOL FUNDING DECISION

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

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

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

NOTE 12 - 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 General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the School at June 30, 2007.

Litigation - A suit was filed in Franklin County Common Pleas Court on May 14, 2001 alleging that Ohio's community (i.e., charter) schools' programs violate 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 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that community schools are 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. Oral argument occurred on November 29, 2005. On October 25, 2006, the Ohio Supreme Court upheld the Court of Appeals' decision that the concept of community schools does not violate the Ohio constitution.

School Funding - The Ohio Department of Education (ODE) reviews enrollment data and full-time equivalency (FTE) calculations made by the School. These reviews ensure that the School is reporting accurate student enrollment data to the state, upon which state foundation funding is calculated. For fiscal year 2007, the School received an overpayment of $11,675 from ODE, which is included in intergovernmental payables at June 30, 2007.

NOTE 13 - FISCAL AGENT

The School entered into a service agreement with Mangen & Associates to serve as the chief fiscal officer and treasurer of record of the School for the fiscal year ended June 30, 2007. The School is invoiced monthly for these services at the contractual rate of $2,150 per month. The Lucas County Educational Service Center (LCESC) was the chief fiscal officer and treasurer of record of the School for the fiscal year ended June 30, 2006. LCESC was compensated at a rate of 2% (1% for treasurer services and 1% for a sponsorship fee) of the per-pupil allotment paid to the School from the State of Ohio.

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 Lucas County ESC 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 Auditor of Ohio;
- Invest funds of the School in the same manner as the funds of Lucas County ESC are invested, but the treasurer shall not commingle the funds with any of Lucas County ESC 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 14 - PURCHASED SERVICES

For the years ended June 30, 2007 and 2006, purchased services rendered by various vendors were as follows:

	2007	2006
Professional and Technical Services	$ 194,113	$ 499,643
Property Services	173,065	147,810
Travel Mileage/Meeting Expenses	10,181	19,669
Communications	33,169	36,048
Utilities	15,371	24,090
Contracted Craft or Trade Services	167,553	139,051
	$ 593,452	$ 866,311

NOTE 15 - NOTES PAYABLE

Debt outstanding for the School as of June 30, 2007 and 2006 was as follows:

	Principal Outstanding June 30, 2006	Additions	Reductions	Principal Outstanding June 30, 2007
General Note (Education Solutions)	$ 93,000	-	$ -	$ 93,000
General Note (National City)	73,500	-	-	73,500
	$ 166,500	-	$ -	$ 166,500

The general note from National City Bank is a line of credit issued on January 21, 2004, with an amount up to $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 1% over the prime interest rate (8.25% at June 30, 2007). Interest paid on the note amounted to $5,526 and $3,876 for the years ended June 30, 2007 and 2006, respectively. The general note from Education Solutions is a $200,000 line of credit, of which the School has borrowed $93,000 as of June 30, 2007 and 2006. This note bears no interest, is unsecured, and is due in full on March 3, 2008.

NOTE 16 - CAPITAL LEASES - LESSEE DISCLOSURE

The School entered into capitalized leases for the acquisition of equipment. The 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 $20,136 and $13,425 in principal and interest for the years ended June 30, 2007 and 2006, respectively. The assets are amortized over their estimated useful lives. Cost was $63,713 and 63,713 and accumulated amortization is $50,970 and $38,227 at June 30, 2007 and 2006, respectively.

Fiscal Year Ending June 30,	Principal	Interest	Total
2008	$ 14,469	$ 2,982	$ 17,451
2009	14,760	1,349	16,109
2010	5,885	134	6,019
	$ 35,114	$ 4,465	$ 39,579

NOTE 17 - OPERATING LEASES - LESSEE DISCLOSURE

On May 1, 2003 and June 1, 2004, the School entered into 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.

NOTE 17 - OPERATING LEASES - LESSEE DISCLOSURE (Continued)

The lease for 1132 Windsor Avenue is currently month to month, and the School is currently seeking to negotiate a long-term lease. The lease for 1111 Windsor Avenue 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 was $54,000 for the fiscal years ended June 30, 2007 and 2006. Approximately $98,000 and $41,000 was accrued as a liability at June 30, 2007 and 2006, respectively.

The following is a schedule of the future minimum payments required under the operating leases as of June 30, 2007:

Fiscal Year Ending June 30,		Facility Lease
2008	$	24,000
2009		24,000
	$	48,000

NOTE 18 - RELATED PARTY

One of the School's founding board members also serves on the board of the management company, Educational Solutions Company (Ed. Solutions), 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. For fiscal years ended 2007 and 2006, management fee expense amounted to $61,000 and $224,014, respectively. These amounts are included in the financial statement line item for purchased services, which amount to approximately $446,000 and $866,000 for the years ended June 30, 2007 and 2006. During the fiscal year ended June 30, 2007, Education Solutions Company forgave $113,561 of management fees owed to it by the School, which is reflected as a reduction of purchased services on the Statements of Revenues and Expenses.

In April 2007, the School supplied staff, supplies and materials for three new community schools: the Educational Academy of Boys and Girls (EABG), Educational Academy at Linden (EAL), and Midnimo Cross Cultural Community School (MID). The School received payment for these services from EABG, EAL and MID totaling $154,526, which is included in operating revenues as instructional charges for services for the year ended June 30, 2007. On July 1, 2007, EABG, EAL and MID entered into a management agreement with Ed Solutions to provide these services.

On July 24, 2006, the School entered into a lease agreement with Revco Discount Drug Centers, Inc. for use of space on the property located at 1465 Oakland Park. Under the lease agreement, rent is $5,167 per month, and the lease will terminate on April 30, 2015. The School entered into this lease on behalf of Ed. Solutions for EABG, EAL and MID, which are operated by Ed. Solutions. The School is in the process of amending this lease to change the lessee to Ed. Solutions. The School has a receivable from Ed Solutions of $20,671 at June 30, 2007 for rent and security deposit paid for this lease. In addition, at June 30, 2007 there is $36,169 of back rent payable on this lease by the School, which is due from Ed. Solutions. The School has not reflected a receivable or payable for this amount because it is the intent for Ed. Solutions to pay the $36,169 directly to the lesser on the behalf of the School in connection with the future amendment of the lease.

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.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING 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

Board of Governors:

We have audited the accompanying basic financial statements of W.C. Cupe Community School (the School) as of and for the year ended June 30, 2007, and have issued our report thereon dated February 15, 2008. 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 the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily disclose all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than a remote likelihood that a misstatement of the

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School's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting, which are identified as Significant Deficiency Numbers 07-01, 07-02, 07-03, 07-04.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly would not disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts 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 instances of noncompliance or other matters, as described in the accompanying schedule of findings and responses, that are required to be reported under *Government Auditing Standard,* which are identified as Noncompliance Numbers 07-01 and 07-02.

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

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
February 15, 2008

W.C. CUPE COMMUNITY SCHOOL

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2007

Significant Deficiency No. 07-01, Controls over Disbursements and Expense Cutoff

Criteria: A well-functioning system of internal controls over cash disbursements would ensure compliance with established controls and have an effective review process so that disbursements are properly approved, recorded and accounted for in a timely manner in order to permit the accurate preparation of reliable financial statements. The controls should also include an effective tracking system of purchases in order to ensure that known expenses are included in the proper accounting period for reporting on the financial statements prepared in conformity with accounting principles generally accepted in the United States of America.

Condition: In the process of performing our audit, we noted inconsistent adherence to established controls and limited review of transactions designed to prevent or detect material errors. The School's inconsistent adherence to internal controls surrounding disbursements does not always provide reasonable assurance that internal financial reporting is timely and accurate.

Effect: The effect of not having a well-functioning system of internal controls over cash disbursements could result in a material misstatement of the financial statements. We identified approximately $119,000 of prior-year expenses reported in the current year, which resulted in a restatement of the prior period financial statement due to improper cutoff. Additionally, the current-year listing of payables, which represents the expense cutoff, was incomplete and misstated by approximately $80,000.

Recommendation: The established procedures for cash disbursements and expense cutoff should be consistently applied to every transaction that is processed. Reviews play a key role in preventing and detecting errors that could affect the accuracy of accounting data and financial information. A budget-to-actual comparison, if performed timely and consistently, can be an effective tool for the timely identification of actual results, which vary significantly from established expectations. Management should establish effective review and reconciliation policies and procedures as a customary part of the disbursements and cutoff processes.

Management Response: The school acknowledges the need for strict adherence to the procedures concerning the pre-approval of disbursements. The result of this strict policy will be rejection of items not pre-approved with proper signatures and documentation.

Significant Deficiency No. 07-02, Revenue Recognition

Criteria: It is important to have an efficient and effective system in place to track and report the School's student count to the agencies that provide the School's funding. A well-functioning system of internal controls over the tracking, submission and reporting of the student population would ensure that the School receives the maximum amount of funding to which it is entitled and limit the opportunity to have the student count over- or understated. The timely and accurate documentation of the criteria used to determine the School's funding will translate to the accurate preparation of reliable financial statements.

Condition: In the process of performing our audit, we noted that there were inconsistencies in the review of the student information being provided to the funding agency, or reconciliation with the information included in the student personnel files. During our student enrollment testing, we noted 3 of 40 files that had attendance records that indicated that the student was in class after the end date listed on the CSADM report. The lack of control and oversight in this area could lead to a material loss of revenue for the School or the School receiving funds to which it was not entitled. The School's lack of internal controls surrounding the reporting of student information could result in a material misstatement of the financial statements that would not be detected by management.

Effect: The effect of not having a complete well-functioning system of internal controls over the reporting of student information could result in a reduction of otherwise available federal and or state funding.

Recommendation: The School should formally document a standardized set of procedures to record all of the student information that is required by the funding agencies and implement those procedures immediately. Management should also establish a formal review process to verify that the information has been submitted timely and accurately. Reviews play a key role in preventing and detecting errors that could affect the accuracy of accounting data and financial information.

Management Response: WCC plans to formally document and implement a standardized set of procedures for student information reporting.

Significant Deficiency No. 07-03, Journal Entry Review and Approval

Criteria: It is the School's responsibility to ensure the accuracy of information included in the conversion of the School's cash basis financial statement to the accrual basis statements, which are required for reporting purposes. An effective system of internal controls for the accurate and timely tracking of the accounting information required to complete the cash to accrual conversion would ensure the preparation of accurate and reliable financial statements. There should also be a process of management review and approval of the journal entries used to compile the accrual basis financial statements.

Condition: In the process of performing our audit, we identified journal entries that were determined to be inaccurate as well as numerous journal entries that had not been identified. The lack of well-functioning internal controls over financial reporting could result in a material misstatement of the financial statements.

Effect: As a result of the lack of well-functioning internal controls over financial reporting, we had to propose material adjusting journal entries to support an unqualified opinion on the financial statements.

Recommendation: Management should establish effective controls to track and evaluate the accounting information that is used to convert the financial statements from cash to accrual. This will assist in the maintenance of accurate information and allow for timely resolution of any questions that are raised when the information is evaluated.

Management Response: WCC used an outside CPA firm to prepare the conversion to accrual basis statements. The Treasurer intends to move away from using an outside contractor for this task. Starting with the FY08 school year, the conversion will be done by staff familiar with the school, its systems, and all other aspects of the financial reporting.

Significant Deficiency No. 07-04, Internal Accounting System and Internal Controls

Criteria: A well-functioning system of internal controls over financial reporting would ensure that transactions are properly recorded and accounted for in order to permit the timely preparation of reliable financial statements. In the process of performing our audit, we noted a certain lack of effective preparation and review of year-end reconciliations and schedules resulting in material errors in the following reconciliations and schedules: 1) The June 30, 2007 General Bank Account Reconciliation; 2) the FY 2007 GAAP Conversion Receivables/Grants Receivable schedule; 3) the FY 2007 GAAP Conversion Capital Assets schedule; 4) the June 30, 2007 Accounts Payable Reconciliation; and 5) the FY 2007 GAAP Conversion Accrued Wages and Benefits schedule.

Condition: The School's internal accounting system and related internal controls do not always provide reasonable assurance that internal financial reporting is timely and accurate.

Effect: The effect of not having a complete well-functioning system of internal controls over financial reporting could result in a material misstatement of the financial statements.

Recommendation: Accounting tasks such as monthly reconciliations, cross-checks and reviews play a key role in proving the accuracy of accounting data and financial information that comprise interim and year-end financial statements. In order to comply with year-end reporting requirements in accordance with Generally Accepted Accounting Principles, management should establish an effective review process to ensure that year-end reconciliations and schedules are prepared accurately.

Management Response: The WCC bank reconciliations are now reviewed by the WCC Treasurer every month to ensure immediate response to any variances. In addition, the WCC Treasurer plans to use staff familiar with the school, its systems, and all other aspects of the financial situation to prepare future GAAP statements. These two changes should ensure a more effective and timely review process for end-of-year reporting.

Noncompliance No. 07-01, Compliance with Laws and Regulations

Criteria: The School is required to operate under the laws and regulations set forth in the Ohio Compliance Supplement (OCS). Matrix 3 has been developed to isolate the procedures that apply to the audit of a community school in accordance with this supplement.

Condition: The School is required to have at least five board members according to the Ohio Revised Code Section (ORC) 3314.02(E). Through our audit work performed, we determined that during the period of November 2006 through March 2007, there were only four board members, and between March 2007, and June 30, 2007 there were only three board members.

Effect: This is a violation of the ORC 3314.02(E) and a finding as it relates to the audit requirements of the OCS.

Recommendation: The School should consider the possibility of expanding the number of board members beyond the minimum requirement of five. This would allow the board to stay in compliance with the requirements of ORC 3314.02(E) during the times when members transition off the board. Management should consider the role of its sponsor (St. Aloysius) in the monitoring activities of the School and request assistance with all areas of compliance on which they are evaluated.

Management Response: The WCC Board currently has the requisite five Directors.

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2007

Noncompliance No. 07-02, Compliance with Laws and Regulations

Criteria: The School is required, annually, to submit all unclaimed funds to the State of Ohio Department of Commerce that meet the requirements of the Ohio Revised Code Section (ORC) 169.

Condition: During our audit, we noted six outstanding checks totaling $1,313 on the bank reconciliation that were between one to three years old (Check numbers 2218 for $275; 6241 for $80; 6373 for $448; 6410 for $20; 6645 for $135; and 6898 for $355). We determined that the checks had been voided, but the funds had not been submitted to the State of Ohio as unclaimed funds.

Effect: This is a violation of the ORC 169, and the funds should be reported and submitted to the State of Ohio Department of Commerce.

Recommendation: The School should consider resolving issues of outstanding checks in a more timely manner. Members of management should adhere to their reporting responsibility as it relates to unclaimed funds and ORC 169.

Management Response: The school will research each of the identified checks to determine which, if any, meet the requirements of the ORC 169. In the future, checks that are unclaimed for more than 12 months will be submitted to the State of Ohio Department of Commerce.

Mary Taylor, CPA
Auditor of State

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
MAY 13, 2008

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