

W.C. CUPE COMMUNITY SCHOOL  
Columbus, Ohio

Financial Statements  
and  
Supplementary Financial Information  
For the years ended June 30, 2006 and 2005  
and Independent Auditors' Report Thereon





# Mary Taylor, CPA

Auditor of State

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, 2005 through June 30, 2006. 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

October 29, 2007

**This Page is Intentionally Left Blank.**

## CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Management's Discussion and Analysis	3
Statements of Net Assets as of June 30, 2006 and 2005	7
Statements for the fiscal years ended June 30, 2006 and 2005:	
Revenues, Expenses and Changes in Net Assets	8
Cash Flows	9
Notes to Financial Statements	11
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 <i>Government Auditing Standards</i>	25
Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	27
Schedule of Expenditures of Federal Awards	29
Note to the Schedule of Expenditures of Federal Awards	30
Schedule of Findings and Questioned Costs	31

**This Page is Intentionally Left Blank.**



INSIGHT ■ INNOVATION ■ EXPERIENCE

## 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 years ended June 30, 2006 and 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 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, 2006 and 2005, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2007 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.

The management's discussion and analysis on pages 3 through 6 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.  
www.schneiderdowns.com

1133 Penn Avenue  
Pittsburgh, PA 15222-4205  
TEL 412.261.3644  
FAX 412.261.4876

41 S. High Street  
Suite 2100  
Columbus, OH 43215-6102  
TEL 614.621.4060  
FAX 614.621.4062

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization*, and is not a required part of the basic financial statements the School. The schedule of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SCHNEIDER DOWNS & CO., INC.

Columbus, Ohio  
May 20, 2007



W.C. CUPE COMMUNITY SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005

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, 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.

**Financial Highlights**

- Total assets were \$396,031.
- Total liabilities were \$794,115.
- Total net assets were (\$398,084).

**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 changes 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 2006?" 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 2006 compared to fiscal year 2005:

<b>Assets</b>		
Current Assets	\$ 127,465	\$ 87,227
Capital Assets, Net	268,566	272,343
Total Assets	<u>\$ 396,031</u>	<u>\$ 359,570</u>
<b>Liabilities</b>		
Current Liabilities	\$ 596,382	\$ 337,941
Noncurrent Liabilities	197,733	101,691
Total Liabilities	<u>794,115</u>	<u>439,632</u>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	218,524	213,299
Restricted for Grants	62,137	40,765
Unrestricted	<u>(678,745)</u>	<u>(334,126)</u>
Total Net Assets	<u>\$ (398,084)</u>	<u>\$ (80,062)</u>

W.C. CUPE COMMUNITY SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005

Total assets increased by \$36,461, which represents a 10.14 percent increase from fiscal year 2005. While cash and cash equivalents increased by \$19,907, total receivables increased by \$20,268. Total liabilities increased by \$354,483, which represents a 54.80 percent increase from 2005. The School's net assets decreased by \$318,022, which represents a 255.38 percent decrease from fiscal year 2005.

Table 2 shows the changes in net assets for fiscal year 2006 as compared to fiscal year 2005:

	2006	2005
<b>Revenues</b>		
Operating Revenues:		
Foundation Payments	\$ 1,487,731	\$ 1,357,579
Disadvantaged Pupil Impact Aid	330,540	321,664
Food Services	349	4,914
Classroom Fees	-	580
Extracurricular Activities	-	678
Other Operating Revenues	14,565	12,526
Non-Operating Revenues:		
Federal and State Grants	591,028	269,438
Gain on Disposal of Capital Asset	-	1,143
Contributions and Donations	10,050	-
Interest	147	129
Total Revenues	2,434,410	1,968,651
<b>Expenses</b>		
Operating Expenses		
Salaries	1,453,741	1,034,712
Fringe Benefits	264,067	242,486
Purchased Services	763,787	637,567
Materials and Supplies	130,265	136,443
Depreciation	41,197	33,620
Other Expenses	84,107	26,587
Non-Operating Expenses:		
Loss on Disposal of Capital Asset	470	-
Other Expenses	14,798	4,537
Total Expenses	\$ 2,752,432	\$ 2,115,952
Decrease in Net Assets	\$ (318,022)	\$ (147,301)

There was an increase in revenues of \$465,759 and an increase in expenses of \$636,480 from fiscal year 2005. Of the increase in revenues, the foundation basic aid payments increased by \$130,152 and federal and state grants increased by \$321,590. Community Schools receive no support from tax revenues.

W.C. CUPE COMMUNITY SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005

The expense for salaries increased by \$419,029 and the expense for fringe benefits increased by \$21,581 from fiscal year 2005. This was primarily due to a staff increase throughout the 2006 school year. The material and supplies expense account decreased by \$6,178 due to less materials and supplies being purchased. The depreciation expense account increased by \$7,577 and purchased services increased by \$126,220 due to outside curriculum and professional development for the additional staff.

**Capital Assets**

At the end of fiscal year 2006, the School had \$268,566 (net of \$111,023 in accumulated depreciation) invested in buildings, leasehold improvements, furniture, fixtures, and equipment. Table 3 shows fiscal year 2006 balances compared to fiscal year 2005:

Table 3  
Capital Asset at June 30, 2006  
(Net of Depreciation)

	2006	2005
Buildings	\$ 61,996	\$ 91,780
Furniture, Fixtures, and Equipment	107,976	73,030
Leasehold Improvements	98,594	107,533
Totals	<u>\$ 268,566</u>	<u>\$ 272,343</u>

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

**Debt**

At June 30, 2006, the School had \$216,542 in total outstanding debt, \$182,489 of which is due within one year. Table 4 summarizes the debt outstanding.

Table 4  
Outstanding Debt, at Year End

	2006	2005
Line of Credit (National City)	\$ 73,500	\$ -
Line of Credit (Education Sol.)	93,000	
Capital Lease payable	50,042	59,044
Total Outstanding Debt	<u>\$ 216,542</u>	<u>\$ 59,044</u>

For more information on debt see Note 14 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 2005-2006 school year, there were approximately 231 students enrolled in the School. The School receives its finances mostly from state aid. Per pupil aid for fiscal year 2006 amounted to \$5,283 per student.

W.C. CUPE COMMUNITY SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005

**Contacting the School's Financial Management**

This financial report is designed to provide our citizen's 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](mailto:CBenson@wccupe.com).

W.C. CUPE COMMUNITY SCHOOL

STATEMENTS OF NET ASSETS  
AS OF JUNE 30, 2006 AND 2005

	June 30	
	<u>2006</u>	<u>2005</u>
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 54,264	\$ 34,357
Receivables:		
Accounts	9,895	10,999
Intergovernmental	62,137	40,765
Prepaid Items	1,169	1,106
Total Current Assets	<u>127,465</u>	<u>87,227</u>
Capital Assets, Net of Accumulated Depreciation	268,566	272,343
Total Assets	<u>\$ 396,031</u>	<u>\$ 359,570</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 211,637	\$ 87,636
Accrued Wages and Benefits Payable	193,595	144,254
Intergovernmental Payable	59,817	65,169
State Pensions Payable	40,282	27,131
Accrued Interest Payable	1,562	942
Capital Leases Payable	15,989	12,809
Note Payable	73,500	-
Total Current Liabilities	<u>596,382</u>	<u>337,941</u>
NONCURRENT LIABILITIES		
Notes Payable	93,000	-
Capital Leases Payable	34,053	46,235
Intergovernmental Payable	70,680	55,456
Total Noncurrent Liabilities	<u>197,733</u>	<u>101,691</u>
Total Liabilities	<u>794,115</u>	<u>439,632</u>
NET ASSETS		
Investment in Capital Assets, Net of Related Debt	218,524	213,299
Unrestricted	(678,745)	(334,126)
Restricted	62,137	40,765
Total Net Assets	<u>(398,084)</u>	<u>(80,062)</u>
Total Liabilities and Net Assets	<u>\$ 396,031</u>	<u>\$ 359,570</u>

See notes to financial statements

W.C. CUPE COMMUNITY SCHOOL

STATEMENTS OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
<b>OPERATING REVENUES</b>		
Foundation Payments	\$ 1,487,731	\$ 1,357,579
Disadvantaged Pupil Impact Aid	330,540	321,664
Food Services	349	4,914
Classroom Fees	-	580
Extracurricular Activities	-	678
Other Operating Revenues	14,565	12,526
Total Operating Revenues	<u>1,833,185</u>	<u>1,697,941</u>
<b>OPERATING EXPENSES</b>		
Salaries	1,453,741	1,034,712
Fringe Benefits	264,067	242,486
Purchased Services	763,787	637,567
Materials and Supplies	130,265	136,443
Depreciation	41,197	33,620
Other Operating Expenses	84,107	26,587
Total Operating Expenses	<u>2,737,164</u>	<u>2,111,415</u>
Operating Loss	<u>(903,979)</u>	<u>(413,474)</u>
<b>NON-OPERATING REVENUES AND (EXPENSE)</b>		
Operating Grants - State	57,498	18,507
Operating Grants - Federal	533,530	250,931
(Loss)/Gain on Disposal of Capital Asset	(470)	1,143
Interest	147	129
Contributions and Donations	10,050	-
Interest and Fiscal Charges, net	(14,798)	(4,537)
Total Non-Operating Revenues	<u>585,957</u>	<u>266,173</u>
<b>CHANGE IN NET ASSETS</b>	<b>(318,022)</b>	<b>(147,301)</b>
<b>NET ASSETS</b>		
Beginning of year	<u>(80,062)</u>	<u>67,239</u>
End of year	<u>\$ (398,084)</u>	<u>\$ (80,062)</u>

See notes to financial statements

W.C. CUPE COMMUNITY SCHOOL

STATEMENTS OF CASH FLOWS  
FOR THE FISCAL YEARS END JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from State of Ohio	\$ 1,865,843	\$ 1,807,861
Cash Received from Other Operating Sources	14,914	18,698
Cash Payments to Suppliers for Goods and Services	(853,117)	(740,376)
Cash Payments to Employees for Services	(1,415,037)	(1,025,250)
Cash Payments for Employee Benefits	<u>(277,979)</u>	<u>(235,793)</u>
Net Cash Used In Operating Activities	<u>(665,376)</u>	<u>(174,860)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on Cash and Cash Equivalents	<u>147</u>	<u>129</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Operating Grants Received - State	38,853	18,507
Operating Grants Received - Federal	530,803	249,714
Contributions and Donations	<u>10,050</u>	<u>-</u>
Net Cash Provided By Noncapital Financing Activities	<u>579,706</u>	<u>268,221</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Fixed Asset Purchases	(37,890)	(23,046)
Proceeds from Loans	-	20,000
Proceeds from (payments on) notes and capital leases, net	157,498	(65,437)
Interest Payments	<u>(14,178)</u>	<u>(4,483)</u>
Net Cash Provided By (Used In) By Capital And Related Financing Activities	<u>105,430</u>	<u>(72,966)</u>
Net Increase in Cash and Cash Equivalents	19,907	20,524
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>34,357</u>	<u>13,833</u>
End of year	<u>\$ 54,264</u>	<u>\$ 34,357</u>

See notes to financial statements.

W.C. CUPE COMMUNITY SCHOOL

STATEMENTS OF CASH FLOWS  
FOR THE FISCAL YEARS END JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
Reconciliation of Operating Loss to Net Cash Used by Operating Activities		
Operating Loss	\$ (903,979)	\$ (413,474)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation	41,197	33,620
Changes in Assets and Liabilities:		
Receivables	1,104	50,055
Prepaid Items	(63)	(251)
Accounts Payable	124,001	60,472
Accrued Wages and Benefits Payable	49,341	9,462
Intergovernmental Payable	9,872	96,401
State Pension Payable	13,151	(11,145)
Net Cash Used by Operating Activities	<u>\$ (665,376)</u>	<u>\$ (174,860)</u>
Summary of Significant Non-Cash Investing and Financing Transactions:		
Acquisition of equipment via capital lease		<u>\$ 63,713</u>

See notes to financial statements.



W.C. CUPE COMMUNITY SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005

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 7. The School, which is part of the State's education program, is independent of any school district and is non secretarial 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 and renews annually every June 30<sup>th</sup> unless cancelled by either party with 90 days.

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 28 non-certified and 22 certificated full time teaching personnel who provide services to 231 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 (Note 12).

On May 1, 2003, Education Solutions Company and the School entered into a three-year contract with a renewal for a successive 1 year period 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 Sections 501(c)(3) and qualifies as a related organization, as that term is defined in IRC Section 509(a)(3) and the Treasury 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.

W.C. CUPE COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005

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** - 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 is 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.

W.C. CUPE COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005

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, LSESC. 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. The School maintains a capitalization threshold of one thousand dollars.

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:

<u>Description</u>	<u>Estimated Lives</u>
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, 2006 and 2005 totaled \$2,409,299 and \$1,948,681, respectively.

W.C. CUPE COMMUNITY SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prepaid Items - Payments made to vendors for services that will benefit periods beyond June 30, 2006, 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. 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 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 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 30, 2006.

NOTE 3 - DEPOSITS

At fiscal year end June 30, 2006, the carrying amount of the School's deposits was \$54,264 and the bank balance was \$119,168. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2006, \$16,609 of the bank balance was exposed to custodial risk as discussed below, while \$102,559 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.

W.C. CUPE COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005

NOTE 3 - DEPOSITS (Continued)

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

NOTE 4 - RECEIVABLES

Receivables at June 30, 2006 and 2005 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, 2006 were received subsequent to year end and all intergovernmental receivables are considered collectable in full. A summary of the principal items of receivables follows:

<u>Receivables</u>	<u>2006</u>	<u>2005</u>
Accounts	\$ 9,895	\$ 10,999
<u>Intergovernmental</u>		
Federal School Breakfast & Lunch	\$ 22,080	\$ 16,025
Student Intervention GR 1-4	-	3,886
Title I	-	12,555
Title II A	9,825	2,538
Title III D	-	4,612
Title V	-	1,149
Ohio Reads	4,532	-
Ohio Reads Volunteer	18,000	-
IDEA - B	7,700	-
Total Government Receivables	<u>62,137</u>	<u>40,765</u>
	\$ <u>72,032</u>	\$ <u>51,764</u>

W.C. CUPE COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

Buildings	\$ 98,934	\$ -	\$ -	\$ 98,934
Furniture, Fixtures and Equipment	111,029	37,890	2,352	146,567
Leasehold Improvements	<u>134,088</u>	<u>-</u>	<u>-</u>	<u>134,088</u>
Total Capital Assets Being Depreciated	<u>344,051</u>	<u>37,890</u>	<u>2,352</u>	<u>379,589</u>
Less Accumulated Depreciation:				
Buildings	7,154	29,784	-	36,938
Furniture, Fixtures and Equipment	37,999	2,474	1,882	38,591
Leasehold Improvements	<u>26,555</u>	<u>8,939</u>	<u>-</u>	<u>35,494</u>
Total Accumulated Depreciation	<u>71,708</u>	<u>41,197</u>	<u>1,882</u>	<u>111,023</u>
Capital Assets, Net of Accumulated Depreciation	<u>\$ 272,343</u>	<u>\$ (3,307)</u>	<u>\$ 470</u>	<u>\$ 268,566</u>

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, 2006, 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

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 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.

W.C. CUPE COMMUNITY SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005

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.

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salary and the School was required to contribute an actuarially determined rate. The employer rate for fiscal year 2006 was 14 percent of annual covered payroll; 10.57 percent 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 School's required contribution for pension obligations to SERS for the fiscal years ending June 30, 2006, 2005, and 2004 were \$93,252, \$66,180, and \$52,198 respectively; 68.20 percent has been contributed for fiscal year 2006, and 100 percent for fiscal years 2005 and 2004. \$29,650 represents the unpaid contribution for fiscal year 2006. The balance outstanding is reflected as an intergovernmental payable.

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 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. The Combined Plan offers features of the DC Plan and the DB. In the Combined Plan, the member contributions are allocated 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.

W.C. CUPE COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

NOTE 7 - DEFINED BENEFIT PENSION PLANS (Continued)

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 service credit regardless of age. The annual 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 31<sup>st</sup> year of earned Ohio service credit is calculated at 2.5%. 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 - The member allocates Member contributions, 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's 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 a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.



W.C. CUPE COMMUNITY SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005

NOTE 7 - DEFINED BENEFIT PENSION PLANS (Continued)

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 health care coverage to eligible retirees who participated in the plans and their eligible dependent. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio Law health care benefits are not guaranteed.

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.

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. The School's required contribution for pension obligations for the fiscal years ended June 30, 2006, 2005, and 2004 were \$102,738, \$36,962 and \$57,441, respectively; 100 percent has been contributed for fiscal years 2006, 2005 and 2004.

STRS Ohio issues a stand-alone financial report. Copies of STRS Ohio 2006 Comprehensive Annual Financial Report will be available after January 1, 2006. Additional information or copies of STRS Ohio's 2006 Comprehensive Annual Financial Report can be requested by writing to STRS Ohio, 275 E. Broad St., Columbus, Ohio 43215-3771, by calling (614) 227-4090, or by visiting the STRS OhioWeb site at [www.strsoh.org](http://www.strsoh.org).

NOTE 8 - POSTEMPLOYMENT BENEFITS

School Employees Retirement System - The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2005, 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 apply.

W.C. CUPE COMMUNITY SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005

NOTE 8 - POSTEMPLOYMENT BENEFITS (Continued)

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2006, the healthcare allocation is 3.43 percent. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$27,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Net health care costs for the year ending June 30, 2005 (the latest information available), were \$178,221,113. The target level for the health care fund is 150% of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168% of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual net claim costs. The number of recipients currently receiving health care benefits is approximately 58,123.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For fiscal year June 30, 2006, the Board allocated employer contributions equal to 3.43 percent of covered payroll and adding the surcharge due to the Health Care Reserve Fund. For the School, the amount to fund health care benefits, including surcharge, equaled \$32,298 for the fiscal year ended June 30, 2006.

State Teachers Retirement System - STRS Ohio provides access to health care coverage to retirees who participated in the Defined Benefit or Combined Plans and their dependents. Coverage under the current 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 health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium.

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

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For fiscal year June 30, 2006, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. The balance in the Health Care Stabilization Fund was \$3.3 billion of June 30, 2005. For the School, this amount equaled \$8,119 for the fiscal year ended June 30, 2006.

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

W.C. CUPE COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005

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 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, 2006.

Litigation - A suit was filed in Franklin County Common Pleas Court on May 14, 2001 alleging Ohio's Community (i.e. Charter) School's 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 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 reviews enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. For fiscal year 2006, the review has not yet been completed. The School is not certain what effect, if any, this review will have on its financial statements.

W.C. CUPE COMMUNITY SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005

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 shall compensate LCESC two percent (2%) of the per pupil allotment paid to the School from the State of Ohio. Total contract payments of \$46,020 and \$34,457 were paid during the year ended 2006 and 2005, respectively, and a net receivable in the amount of \$1,414 was recorded for the year ended June 30, 2006 and a net liability in the amount of \$2,196 was accrued for the year ended June 30, 2005.

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.

The School terminated the contract on June 30, 2006 and entered into a new service agreement with Mangan and Associates to serve as the Chief Fiscal Officer of the School.

NOTE 13 - PURCHASED SERVICES

For the years ended June 30, 2006 and 2005, purchased services rendered by various vendors, was as follows:

	<u>2006</u>	<u>2005</u>
Professional and Technical Services	\$ 400,942	\$ 382,042
Property Services	96,379	64,448
Travel Mileage/Meeting Expenses	91,968	41,505
Communications	31,863	32,455
Utilities	3,584	17,285
Contracted Craft or Trade Services	139,051	99,832
	<u>\$ 763,787</u>	<u>\$ 637,567</u>

W.C. CUPE COMMUNITY SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005

NOTE 14 - DEBT

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

	Principal Outstanding 06/30/05	Additions	Reductions	Principal Outstanding 06/30/06
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 \$73,500. 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. Interest paid on the note amounted to \$3,876 and \$938 for the years ended June 30, 2006 and 2005, 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, 2006. This note bears no interest and is unsecured.

NOTE 15 - CAPITALIZED 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 \$13,425 and \$7,406 in principal and interest for the years ending June 30, 2006 and 2005, respectively.

Fiscal Year Ending June 30,	Principal	Interest	Total
2007	\$ 15,989	\$ 3,928	\$ 19,917
2008	13,409	2,701	16,110
2009	14,760	1,349	16,109
2010	5,884	134	6,018
	\$ 50,042	\$ 8,112	\$ 58,154

W.C. CUPE COMMUNITY SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005

NOTE 16 - 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. The lease ending June 30, 2006 has no option to renew and the School is currently seeking to negotiate a long term lease. 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 was \$54,000 for the fiscal years ended June 30, 2006 and 2005. The amount of \$40,899 and \$18,000 was accrued as a liability at June 30, 2006 and 2005, respectively.

The following is a schedule of the future minimum payments required under the operating leases as of June 30, 2006:

<u>Fiscal Year Ending June 30,</u>	<u>Facility Lease</u>
2007	\$ 24,000
2008	24,000
2009	<u>24,000</u>
	<u>\$ 72,000</u>

NOTE 17 - RELATED PARTY

Two of the School's founding board members also serve on the board of the management company, Educational Solutions 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. For the fiscal year ended 2006 and 2005 the expense amounted to \$224,014 and \$209,616, respectively.

NOTE 18 - 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.

NOTE 19 - SUBSEQUENT EVENT

Subsequent to year end, Education Solutions Company forgave \$113,561 of management fees owed to it by the School. The accompanying financial statements do not include any adjustments as a result of this event.

Subsequent to year end, the legal name of the entity was changed to "W.C. Cupe College Preparatory School".



INSIGHT ■ INNOVATION ■ EXPERIENCE

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

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, 2006, and have issued our report thereon dated May 20, 2007. 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*.

Schneider Downs & Co., Inc.  
www.schneiderdowns.com

1133 Penn Avenue  
Pittsburgh, PA 15222-4205  
TEL 412.261.3644  
FAX 412.261.4876

41 S. High Street  
Suite 2100  
Columbus, OH 43215-6102  
TEL 614.621.4060  
FAX 614.621.4062



We noted certain matters that we reported to management of W.C. Cupe Community School in a separate letter dated May 20, 2007.

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 DOWNNS & CO., INC.

Columbus, Ohio  
May 20, 2007





INSIGHT ■ INNOVATION ■ EXPERIENCE

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of W.C. Cupe Community School (the School) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The School's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the School's management. Our responsibility is to express an opinion on the School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the School's compliance with those requirements.

In our opinion, the School complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the School is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with

requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance 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 noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

SCHNEIDER DOWNS & CO., INC.

Columbus, Ohio  
May 20, 2007

W.C. CUPE COMMUNITY SCHOOL

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2006

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Disbursements/ Expenditures</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>		
The Ohio Department of Education		
Title I Grants to Local Education Agencies	84.010	\$ 304,334
Special Education Grants to States	84.027	66,162
Special Education - Preschool Grants	84.173	936
State Grants for Innovative Programs	84.298	1,017
Improving Teacher Quality State Grant	84.367	17,111
Education Technology State Grants	84.318	5,905
Safe Drug-Free Schools and Communities - State Grants	84.186	3,761
<u>U.S. DEPARTMENT OF AGRICULTURE</u>		
National School Luncheon Program	10.555	<u>134,304</u>
TOTAL FEDERAL AWARDS		<u>\$ 533,530</u>

W.C. CUPE COMMUNITY SCHOOL

NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2006

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant transactions of W.C. Cupe Community School recorded on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

W.C. CUPE COMMUNITY SCHOOL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2006

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements Section:

Type of auditors' report issued:	Unqualified
Internal Control Over Financial Reporting:	
Material weaknesses identified	No
Reportable conditions identified that are not considered to be material weakness	None Reported
Noncompliance material to financial statements noted	No

Federal Awards Section:

Internal Control Over Major Programs:	
Material weaknesses identified	No
Reportable conditions identified that are not considered to be material weakness	No
Type of auditors' report issued on compliance for major programs:	Unqualified
Audit findings required to be reported in accordance with Section 510(a) of OMB Circular A-133	No

Identification of Major Programs:

***CFDA NUMBER***

***FEDERAL PROGRAM TITLE***

84.010

Title I Grants to Local  
Education Agencies

Dollar threshold to determine Type A programs: \$300,000

Auditee qualified as a low-risk auditee No

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters reported





**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  
NOVEMBER 8, 2007**