W. C. CUPE COMMUNITY SCHOOL
FRANKLIN COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2004

Auditor of State
Betty Montgomery

W.C. CUPE COMMUNITY SCHOOL
FRANKLIN COUNTY

TABLE OF CONTENTS

THIS PAGE INTENTIONALLY LEFT BLANK

INDEPENDENT ACCOUNTANTS' REPORT

W.C. Cupe Community School
Franklin County
1132 Windsor Avenue
Columbus, Ohio 43211

To the Governing Board:

We have audited the accompanying basic financial statements of the W.C. Cupe Community School, Franklin County, Ohio, (the School) as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the W.C. Cupe Community School, Franklin County, Ohio, as of June 30, 2004, and the changes in financial position and cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2005, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We 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.

Betty Montgomery

Betty Montgomery
Auditor of State

February 11, 2005

The discussion and analysis of W.C. Cupe Community School's (the School) financial performance provides an overall view of the School's financial activities for the year ended June 30, 2004. 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

Key Financial Highlights for W. C. Cupe for the 2003-2004 school year are as follows:

- Total assets increased $72,025, which represents a 26% increase from 2003. This increase is primarily due to the School purchasing additional capital assets, including additions to buildings.

- Operating revenues increased $385,886, which represents a 40% increase from 2003. The majority of this increase is due to increased enrollment resulting in increased state funding and federal subsidies.

- Operating expenses increased by $360,704, which represents a 27% increase from 2003. Operating expense increases are due to services delivered for the increased enrollment, annual increases in service costs and additional services paid with non-operating revenues.

- Net assets decreased by $42,149, which represents a 39% decrease.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the financial position of the School. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The statement of net assets represents the basic statement of position for the School. The statement of revenues, expenses, and changes in net assets presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. In the case of the School, there is only one fund presented. The statement of cash flows reflects how the School finances and meets its cash flow needs. Finally, the notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided on the basic financial statements.

Reporting the School as a Whole

The view of the School as a whole looks at all financial transactions and asks, "How did we do financially during 2004?" The statement of net assets and the statement of revenues, expenses, and change in net assets answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* 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 two statements report the School's *net assets* and change in those asset. This change in net assets is important because it tells the reader that, for the School as a whole, the *financial position* of the School has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

Financial Analysis

The School is not required to present government-wide financial statements as the School is engaged in only business-type activities. Therefore, no condensed financial information derived from government-wide financial statements is included in the discussion and analysis.

The following tables represent the School's condensed financial information derived from the statement of net assets and the statement of revenues, expenses, and changes in net assets.

A comparative analysis of fiscal year 2004 and 2003 follows:

Table 1
Statement of Net Assets

	2004	2003
Assets		
Current Assets	$ 115,290	$ 99,240
Capital Assets, Net of A/D	236,968	180,993
Total Assets	352,258	280,233
Liabilities		
Current Liabilities	276,985	170,845
Long-Term Liabilities	16,245	-
Total Liabilities	293,230	170,845
Net Assets		
Invested in Capital Assets, Net of Debt	217,293	-
Unrestricted	(150,054)	109,388
Total Net Assets	$ 67,239	$ 109,388

Total assets increased by $72,025. While cash and cash equivalents increased by $3,670, total receivables increased by $11,736.

Although the School's net assets decreased by $42,149, the unrestricted net assets decreased by $259,442. An analysis of cash flows for operating activities in 2004 demonstrates cash payments for activities exceeding operating cash revenues by $249,009. The net cash provided by noncapital financing activities covers the net cash decrease in operating activities.

Operating Activities

Salaries and Fringe Benefits comprise 62 percent of operating expenses. Interest expense was $3,086 was attributable to the capital lease for a copier.

The Statement of Revenues, Expenses, and Changes in Net Assets shows the cost of operating expenses and the revenues offsetting those services. Table 2 shows the total amount of operating and non-operating expenses and the revenues associated with those expenses for the year. That is, it identifies the amount of operating expenses supported by State and other funding.

Table 2
Statement of Revenues, Expenses, and Changes in Net Assets

	2004	2003
Operating Revenues		
Foundation Payments	$ 1,094,459	$ 719,369
Disadvantaged Pupil Impact Aid	253,775	248,799
Food Services	7,989	3,687
Classroom Fees	742	-
Other Operating Revenues	6,200	5,484
Non-Operating Revenues		
Operating Grants – State	15,336	9,080
Operating Grants – Federal	275,203	316,308
Interest Income	143	1,674
Contribution and Donations	1,365	1,182
Total Revenues	**1,655,212**	**1,305,583**
Operating Expenses		
Salaries	828,161	722,348
Fringe Benefits	225,465	158,952
Purchased Services	396,236	211,582
Materials and Supplies	200,972	179,366
Depreciation Expense	23,264	14,491
Other Operating Expense	20,177	46,832
Non-Operating Expenses		
Interest and Fiscal Charges	3,086	-
Total Expenses	**1,697,361**	**1,333,571**
Change in Net Assets	($ 42,149)	($ 27,988)

The financial position of the School has decreased slightly since 2003. The dependence upon state foundation revenues for operating activities is apparent. The School added grades 4 through 6 during 2004 which increased student population, and therefore increased foundation revenues. Additional staff was also hired to accommodate the additional students, which caused an increase in salaries and fringe benefits.

The state foundation revenue, as a whole, is by far the primary support for W.C. Cupe Community School. Foundation revenues represented 80% of the Schools operating revenue. The School is looking into options on reducing expenses and increasing overall revenue.

Capital Assets and Debt Administration

Capital Assets

At the end of 2004 the School had $236,968 (net of $42,529 in accumulated depreciation) invested in buildings, leasehold improvements, furniture, and equipment. Table 3 shows 2004 balances compared to 2003:

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

	2004	2003
Buildings	$ 86,616	$ 48,464
Furniture and Equipment	43,018	16,866
Leasehold Improvements	107,334	115,663
Totals	$ 236,968	$ 180,993

For the year ended June 30, 2004, the School had $79,239 in purchases of buildings and equipment, which included additions to the modulars that house the students. Detailed information regarding capital asset activity is included in the notes to the basic financial statements (Note 6).

Debt

At June 30, 2004 the School had $19,675 in Capital Leases payable and $40,000 in Notes payable, $43,430 of which is due within one year. Detailed information regarding capital lease and short-term debt activity is included in the notes to the basic financial statements (Notes 15 and 16).

For the Future

Since its inception, the leadership of W. C. Cupe Community School has been driven to utilize available financial resources to maximize the academic impact on its students. As the preceding information demonstrates, the School operated on a very tight budget during the 2003-2004 school year.

Based upon a growing student population and the establishment of effective fiscal management controls, the future of W. C. Cupe is expected to be very bright. The School is currently implementing proven methods of budgeting and financial planning to enable the cash reserves to grow while incrementally increasing the amount and effectiveness of its academic investments.

The future will definitely have challenges for the leadership of W. C. Cupe Community School, including the uncertain nature of school funding, charter school legal challenges, student enrollment fluctuations, and a wide variety of daily operational issues. However, the implementation of efficient financial management and fiscal controls will provide W. C. Cupe with the means to effectively respond to the many challenges that lie ahead.

Contacting the School's Financial Management

This financial report is designed to provide our citizen's, taxpayers, investors and creditors 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 of W.C. Cupe Community School, 1132 Windsor Avenue, Columbus, Ohio 43211 or e-mail at CBenson@wccupe.com.

W.C. CUPE COMMUNITY SCHOOL
FRANKLIN COUNTY

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2004

<u>Assets:</u>		
Current Assets:		
Cash and Cash Equivalents with Fiscal Agent	$	13,833
Receivables:		
Accounts		1,102
Intergovernmental		99,500
Prepaid Items		855
Total Current Assets		115,290
Non-Current Assets:		
Capital Assets, Net of Accumulated Depreciation		236,968
Total Non-Current Assets		236,968
Total Assets	$	352,258
<u>Liabilities:</u>		
Current Liabilities:		
Accounts Payable	$	26,600
Accrued Wages and Benefits Payable		143,003
Due to Students		564
Intergovernmental Payable		24,224
State Pensions Payable		38,276
Accrued Interest Payable		888
Capital Leases Payable		3,430
Notes Payable		40,000
Total Current Liabilities		276,985
Long-Term Liabilities:		
Capital Lease Payable		16,245
Total Long-Term Liabilities		16,245
Total Liabilities		293,230
<u>Net Assets:</u>		
Investment in Capital Assets, Net of Related Debt		217,293
Unrestricted		(150,054)
Total Net Assets	$	67,239

See Accompanying Notes to the Basic Financial Statements

W.C. CUPE COMMUNITY SCHOOL
FRANKLIN COUNTY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004

Operating Revenues:	
Foundation Payments	$ 1,094,459
Disadvantaged Pupil Impact Aid	253,775
Food Services	7,989
Classroom Fees	742
Other Operating Revenues	6,200
Total Operating Revenues	1,363,165
Operating Expenses:	
Salaries	828,161
Fringe Benefits	225,465
Purchased Services	396,236
Materials and Supplies	200,972
Depreciation	23,264
Other Operating Expenses	20,177
Total Operating Expenses	1,694,275
Operating Loss	(331,110)
Non-Operating Revenues (Expenses):	
Operating Grants - State	15,336
Operating Grants - Federal	275,203
Interest Income	143
Contributions and Donations	1,365
Interest and Fiscal Charges	(3,086)
Total Non-Operating Revenues (Expenses)	288,961
Change in Net Assets	(42,149)
Net Assets at Beginning of Year (as restated)	109,388
Net Assets at End of Year	$ 67,239

See Accompanying Notes to the Basic Financial Statements

W.C. CUPE COMMUNITY SCHOOL
FRANKLIN COUNTY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities:	
Cash Received from State of Ohio	$ 1,348,234
Cash Received from Classroom Fees	742
Cash Received from Other Operating Sources	13,166
Cash Payments to Suppliers for Goods and Services	(630,438)
Cash Payments to Employees for Services	(783,132)
Cash Payments for Employee Benefits	(197,581)
Net Cash Used for Operating Activities	(249,009)
Cash Flows from Noncapital Financing Activities:	
Operating Grants Received - State	14,817
Operating Grants Received - Federal	258,116
Contributions and Donations	1,365
Net Cash Provided by Noncapital Financing Activities	274,298
Cash Flows from Capital and Related Financing Activities:	
Proceeds from Loans	40,000
Cash Payments for Capital Acquisitions	(57,034)
Principal Payments	(2,530)
Interest Payments	(2,198)
Net Cash Used for Capital and Related Financing Activities	(21,762)
Cash Flows from Investing Activities:	
Interest on Cash and Cash Equivalents	143
Net Cash Provided by Investing Activities	143
Net Increase in Cash and Cash Equivalents	3,670
Cash and Cash Equivalents at Beginning of Year	10,163
Cash and Cash Equivalents at End of Year	$ 13,833
Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating Loss	$ (331,110)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation	23,264
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	5,870
Increase in Prepaid Items	(644)
Decrease in Accounts Payable	(26,277)
Increase in Accrued Wages Payable	55,893
Decrease in Compensated Absences Payable	(8,211)
Increase in Intergovernmental Payable	4,671
Increase in State Pension Payable	27,535
Net Cash Used for Operating Activities	$ (249,009)

See Accompanying Notes to the Basic Financial Statements

THIS PAGE INTENTIONALLY LEFT BLANK

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. Management is not aware of any course of action or series of events that have occurred that might adversely affect the School's tax-exempt status. Using a direct instruction approach in teaching the students, the School's mission is its commitment to the academic and social development of the students. Scholastic subjects such as math, language, reading, and science are provided to students grades K through 6. The School, which is part of the State's education program, is independent of any school district and is non 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 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 16 non-certified and 14 certificated full time teaching personnel who provide services to 174 students.

The School has entered into a service agreement with the Lucas County Educational Service Center, Lucas County, Ohio to provide certain financial and accounting services and the Treasurer of Lucas county ESC serves as the Chief Financial Officer of the School (See Note 13).

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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

Enterprise Accounting

The School's basic financial statements consist of statement of net assets; a statement of revenues, expenses, and changes in net assets; and a statement of cash flows.

The School's uses enterprise accounting to track and report on 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 changes in net assets is appropriate for public policy, management control, accountability or other purposes.

B. Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statements of net assets. The statement of revenues, expenses, and changes in net assets presents increases (e.g. revenues) and decreases (e.g. expenses) in net total assets. The statement of cash flows reflects how the School finances and meets its cash flow needs.

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

C. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor does prescribe an annual budget requirement in addition to preparing a five-year forecast, which is to be updated annually.

D. 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, the Lucas County Educational Service Center. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Cash and Investments (Continued)

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 the School are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

During the year ended 2004, investments were limited to repurchase agreements and STAR Ohio. Repurchase agreements are reported at cost. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2004.

E. Capital Assets and Depreciation

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School maintains a capitalization threshold of $1,000. The School does not possess any infrastructure.

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and the expense is reported in the year in which the services are consumed.

H. Net Assets

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

I. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the School. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the School. All revenues and expenses not meeting this definition are reported as non-operating.

J. 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. Actual results may differ from those estimates.

K. 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, 2004.

3. RESTATEMENT OF NET ASSETS

The beginning net asset amount reflects the change at June 30, 2003, due to the removal of the compensated absences liability. The School policy does not provide for compensated absences payments. The change had the following effect on the School's net assets, as previously reported at June 30, 2003:

Net Assets, June 30, 2003	$101,177
Adjustment for Compensated Absences Liability	8,211
Restated Net Assets, June 30, 2003	$109,388

4. DEPOSITS AND INVESTMENTS

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, “Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements.”

At June 30, 2004, the carrying amount of the School’s deposits was $13,833 and the bank balance was $48,009. The bank balance was covered by Federal Depository Insurance Corporation (FDIC).

5. RECEIVABLES

Receivables at June 30, 2004, consisted of accounts and intergovernmental receivables arising from grants, entitlement and shared revenues. All receivables are considered collectable in full. A summary of the principal items of receivables follows:

Receivables	Amount
Accounts	$ 1,102
Intergovernmental	
FY04 SB-2 DPIA	59,952
Student Intervention GR 1-4 ’04	519
Title I ‘04 - Targeted Assistance	31,156
Title IIA ‘04	6,009
Title IID ‘04 - Technology	1,864
Total Intergovernmental Receivables	99,500
Total Receivables	$ 100,602

6. CAPITAL ASSETS

A summary of the School’s changes in capital asset’s at June 30, 2004 follow:

	Balance 06/30/03	Additions	Deletions	Balance 06/30/04
Buildings	$ 50,861	$ 40,435	$ -	$ 91,296
Furniture and Equipment	24,447	38,804	-	63,251
Leasehold Improvements	124,950	-	-	124,950
Totals at Historical Cost	200,258	79,239	-	279,497
Less Accumulated Depreciation	(19,265)	(23,264)	-	(42,529)
Net Depreciable Capital Assets	$ 180,993	$ 55,975	$ -	$ 236,968

7. RISK MANAGEMENT

A. 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, 2004, the School contracted with State Farm Insurance for its insurance coverage as follows:

7. RISK MANAGEMENT (Continued)

A. Insurance Coverage (Continued)

General Liability per occurrence ($1,000 Deductible)	$1,000,000
General Liability aggregate	2,000,000
Buildings	1,569,200
Business Personal Property	97,100
Business Liability	1,000,000
Medical Payments	5,000
Products - Completed Operations aggregate	2,000,000

B. 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.

8. DEFINED BENEFIT PENSION PLANS

A. 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 State Statute 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 43215-3476, or by calling (614) 222-5853.

For the fiscal year ended June 30, 2004 plan members are required to contribute 10% of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14% of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The School's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were $52,198, $53,950, and $6,523, respectively. The School has contributed $44,129 for fiscal year 2004 and the reminder has been recorded as a payable to State Pension Systems.

8. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement Systems (STRS)

The School participates in the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

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

Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001.

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

For the fiscal year ended June 30, 2004 plan members are required to contribute 9.3% of their annual covered salary and the School is required to contribute 14%; 13% was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The School's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were $57,441, $62,160, and $46,714, respectively; the School has contributed $27,234 for fiscal year 2004 and the reminder has been recorded as a payable to State Pension Systems.

9. POSTEMPLOYMENT BENEFITS

The School provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS is included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year 2004, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the School, this amount equaled $574 during fiscal 2004.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004, the balance in the Fund was $3.1 billion. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were $268,739,000 and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retires whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

After the allocation for basic benefits, the reminder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. 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 2004, the minimum pay was established at $25,400. For the School, the amount to fund health care benefits, including surcharges, during the 2004 was $ 24,837.

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. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2004 were $223,443,805 and the target level was $335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of $300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

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.

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.

12. CONTINGENCIES

A. 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the operating fund. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements included herein or on the overall financial position of the School at June 30, 2004.

B. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the state constitution and state laws. On April 21, 2003 the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case is set for oral argument on November 18th, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public education system and this matter was sent to the Ohio Supreme Court. The effect of this suit, if any on the School is not presently determinable.

C. Full Time Equivalency

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the school. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusions of this review could result in the state funding being adjusted. The review resulted in the discovery of an underpayment to the School in the amount of $805. This amount is deemed immaterial and will not be reflected as Intergovernmental Receivable on the balance sheet.

13. FISCAL AGENT

The School entered into a service agreement with the Treasurer of the Lucas County Educational Service Center to serve as the Chief Fiscal Officer of the School. As part of this agreement, the School shall compensate the Lucas County Educational Service Center two percent (2%) of the per pupil allotment paid to the School from the State of Ohio. The total contract payments made during the year were $21,632, with a liability of $3,954 due at June 30, 2004.

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 Schools' 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.

14. PURCHASED SERVICES

For the period July 1, 2003 through June 30, 2004, purchased service expenses were payments for services rendered by various vendors, as follows:

Professional and Technical Services	$ 264,934
Property Services	32,875
Travel Mileage/Meeting Expense	49,643
Communications	30,222
Utilities	18,562
Total Purchased Services	$ 396,236

15. SHORT-TERM DEBT

Debt outstanding for the School as of June 30, 2004 was as follows:

	Outstanding 06/30/03	Additions	Payments	Outstanding 06/30/04
General Note (National City)	$ -	$ 40,000	$ -	$ 40,000

15. SHORT-TERM DEBT (Continued)

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 one percent over the prime rate. There was no interest paid on the line of credit as of June 30, 2004.

The following is a schedule of the future debt payments as of June 30, 2004:

Year Ending June 30,	Principal	Interest
2005	$ 40,000	$ 2,000

16. CAPITALIZED LEASES – LESSEE DISCLOSURE

The School entered into a capitalized lease for the acquisition of copier equipment. The lease meets 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. The 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 $4,728 in principal and interest for the year ending June 30, 2004.

The following is a schedule of future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2004.

Year Ending June 30,	Principal	Interest
2005	$ 3,430	$ 2,874
2006	4,014	2,290
2007	4,698	1,606
2008	5,499	805
2009	2,034	67
Total Payments	$ 19,675	$ 7,642

17. OPERATING LEASES

The School entered into a lease agreement with Greater Liberty Temple Church for use of space on property located at 1132 Windsor Avenue. Two of the board members, Robert and Estella Stephens also serve on the board of directors of the Church. The terms of the lease commenced July 2001 and terminate June 2006. The lease has no option to renew. Under the amended lease agreement, rent charges are $2,500 a month. Rent expense for the year ended June 30, 2004 was $30,000.

Another agreement is held by the School with Storage USA 438 for use of two storage units during the year. The agreements are set up on a month-to-month basis and can be terminated at anytime. The lease expense for the year ended June 30, 2004 was $2,875.

The following is a schedule of the future minimum payments required under the operating lease as of June 30, 2004:

Year Ending June 30,	Facility Lease
2005	$ 30,000
2006	30,000
Total	$ 60,000

18. RELATED PARTY

Two of the founding board members also serve on the board of the management company the School founded as a tax-exempt charitable and educational organization that was organized and is operated to support the School as an Internal Revenue Code Section 509(a)(3) supporting organization, Educational Solutions Co. The School paid the management company $161,787 through June 30, 2004.

19. TAX EXEMPT STATUS

The School was approved under § 501(c)(3) of the Internal Revenue Code 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 ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

W.C. Cupe Community School
Franklin County
1132 Windsor Avenue
Columbus, Ohio 43211

To the Governing Board:

We have audited the basic financial statements of the W.C. Cupe Community School, Franklin County, Ohio, (the School) as of and for the year ended June 30, 2004, and have issued our report thereon dated February 11, 2005. 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.

Compliance

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards.*

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance 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 over financial reporting that might be material weaknesses. A material weakness is a 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 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. However, we noted a matter involving the internal control over financial reporting that does not require inclusion in this report that we have reported to the School's management in a separate letter dated February 11, 2005.

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

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

Betty Montgomery

Betty Montgomery
Auditor of State

February 11, 2005

THE W.C. CUPE COMMUNITY SCHOOL
FRANKLIN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2004

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***:
2003-001	Segregation of Duties	Yes	Corrective action plan in place to implement segregation of duties and Board monitoring.
2003-002	Annual Report of Activities for Charter School Start-Up Grant and Final Expenditure Report not submitted timely	Yes	Annual Report of Activities not required; School did not receive Start-Up Grant in FY04. Final Expenditure Report was submitted to ODE for Title Grants by the required date for FY04.

Auditor of State
Betty Montgomery

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

W.C. CUPE COMMUNITY SCHOOL

FRANKLIN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
APRIL 5, 2005