



**Auditor of State
Betty Montgomery**

**W.C. CUPE COMMUNITY SCHOOL
FRANKLIN COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Trustees:

We have audited the accompanying Balance Sheet of the W.C. Cupe Community School, Franklin County, Ohio, (the School) as of and for the year ended June 30, 2003, and the related Statement of Revenues, Expenses and Changes in Retained Earnings and Statement of Cash Flows for the year then ended. These financial statements are the responsibility of the School=s management. Our responsibility is to express an opinion on these financial statements based on our 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 opinion.

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, 2003, and the results of its operations and the 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 September 16, 2004, 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.

The accompanying schedule of federal awards receipts and expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. We subjected this information to the auditing procedures applied in the audit of the financial statements. In our opinion, this information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in black ink that reads "Betty Montgomery". The script is cursive and fluid, with the first letters of each word being capitalized and prominent.

Betty Montgomery
Auditor of State

September 16, 2004

**W.C. CUPE COMMUNITY SCHOOL
FRANKLIN COUNTY**

**BALANCE SHEET
AS OF JUNE 30, 2003**

Assets

Current Assets

Cash and Cash Equivalents with Fiscal Agent	\$ 10,163
Accounts Receivable	6,972
Intergovernmental Receivables	81,894
Prepaid Items	211
Total Current Assets	<u>99,240</u>

Non-Current Assets

Fixed Assets (Net of Accumulated Depreciation)	<u>180,993</u>
Total Assets	<u>\$ 280,233</u>

Liabilities and Equity

Current Liabilities

Accounts Payable	\$ 52,877
Accrued Wages and Benefits Payable	87,110
Compensated Absences Payable	8,211
Due to Students	564
State Pension Payable	10,741
Intergovernmental Payable	<u>19,553</u>
Total Liabilities	179,056

Equity

Retained Earnings	<u>101,177</u>
Total Equity	<u>101,177</u>
Total Liabilities and Fund Equity	<u><u>\$ 280,233</u></u>

The accompanying notes are an integral part of the financial statements

**W.C. CUPE COMMUNITY SCHOOL
FRANKLIN COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2003**

Operating Revenues

Foundation Payments	\$ 719,369
Disadvantaged Pupil Impact Aid	248,799
Food Services	3,687
Other	5,484
Total Operating Revenues	<u>977,339</u>

Operating Expenses

Salaries	722,348
Fringe Benefits	167,163
Purchased Services	211,582
Materials and Supplies	179,366
Depreciation	14,491
Other	46,832
Total Operating Expenses	<u>1,341,782</u>

Operating Loss (364,443)

Non-Operating Revenues

Non-Operating Grants	
Federal Sources	316,308
State Sources	9,080
Contributions and Donations	1,182
Interest Income	1,674
Total Non-Operating Revenues	<u>328,244</u>

Net Loss (36,199)

Retained Earnings at Beginning of Year	<u>137,376</u>
Retained Earnings at End of Year	<u><u>\$ 101,177</u></u>

The accompanying notes are an integral part of the financial statements.

**W.C. CUPE COMMUNITY SCHOOL
FRANKLIN COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2003**

Cash Flows from Operating Activities

Cash received from State of Ohio	\$ 968,168
Cash received from Food Services	3,687
Cash received from Other Sources	5,969
Cash Payments to Suppliers for Goods and Services	(437,466)
Cash Payments to Employees for Services	(630,070)
Cash Payments for Employee Benefits	(193,275)
Cash Payments for Other Operating Uses	(48,299)
Net Cash Used for Operating Activities	(331,286)

Cash Flows from Noncapital Financing Activities

Federal Sources	275,686
State Sources	10,755
Contributions and Donations	1,182
Net Cash Provided by Noncapital Financing Activities	287,623

Cash Flows from Capital and Related Financing Activities

Payments for Capital Acquisitions	(127,042)
Net Cash Used for Capital and Related Financing Activities	(127,042)

Cash Flows from Investing Activities

Cash Received from Interest on Investments	1,674
Net Cash Provided by Investing Activities	1,674

Net Decrease in Cash and Cash Equivalents (169,031)

Cash and Cash Equivalents at Beginning of Year	179,194
Cash and Cash Equivalents at End of Year	<u>\$ 10,163</u>

Reconciliation of Operating Loss to Net

Cash Used for Operating Activities

Operating Loss	\$ (364,443)
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Adjustments to Reconcile Operating Loss to Net

Cash Used for Operating Activities

Depreciation	14,491
Changes in Assets and Liabilities:	
(Increase) in Accounts Receivable	(6,972)
Decrease in Prepaid Items	756
Increase in Accounts Payable	(12,639)
Increase in Accrued Wages Payable	28,337
Increase in Compensated Absences Payable	2,647
Increase in Due to Students	564
Increase in State Pension Payable	3,207
Increase in Intergovernmental Payable	2,766
Total Adjustments	33,157
Net Cash Used for Operating Activities	<u>\$ (331,286)</u>

The accompanying notes are an integral part of the financial statements.

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**W.C. CUPE COMMUNITY SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

1. DESCRIPTION OF THE 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 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 3. The School plans to expand to grade 6 in 2004.

The School, which is part of the State=s education program, is independent of any school district and is non sectarian 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 years. 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 Board of Trustees (the Board). The 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 Board controls the school=s one instructional/support facility staffed by 15 non certified and 7certificated full-time teaching personnel who provide services to 165 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 12).

The Board contracted with Achievement Education Services, Inc on June 29, 2002 for the period of July 1, 2002 through June 30, 2003 to perform the following services: program development, building and grounds maintenance, curriculum research and development, marketing and publicity, testing program and analysis, developing annual report, grant preparation and management of federal, state, and private monies, and technology planning and management. In exchange for its services, Achievement Education Services, Inc. was to receive a management fee of \$75,000, however the contract was modified by agreement of the parties and during fiscal year 2003 the School paid \$5,000 with the balance paid to the CEO of the School for her services as an employee of the School.

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 supporting organization, as that term is defined in IRC Section 509(a)(3) and the Treasurer regulations promulgated thereunder. To enable Education Solutions Company to qualify as a supporting 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
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the school have been prepared in conformity with generally accepted accounting principles 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 statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the School's accounting policies are described below.

A. Enterprise Accounting-Basis of Presentation

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 (expenses, including depreciation) 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 net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

B. Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment is determined by its 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 balance sheet. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when 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 on an annual basis.

D. Cash and Investment

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 bank accounts in the School's name. Monies for all funds of the School are maintained in these accounts or temporarily used to purchase short-term investments.

During fiscal year 2003, investments were limited to STAR Ohio. 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, 2003.

**W.C. CUPE COMMUNITY SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Cash and Investment (Continued)

For purposes of the statement of cash flows and for presentation on the balance sheet, investments with a maturity of three months or less at the time they are purchased by the School are considered to be cash equivalents.

E. Fixed Assets and Depreciation

Fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value on the date received. The School maintains a capitalization policy of one thousand dollars. 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 capitalized.

Depreciation of furniture and equipment is computed using the straight-line method over an estimated useful life of five years. Improvements to fixed assets are depreciated over a useful life of fifteen years. Buildings are depreciated over a useful life of forty years.

F. Intergovernmental Revenues

The School currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid (DPIA) Program. Revenues from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements are met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which they are earned and become measurable.

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

The School also participated in the Federal Charter School Grant Program through the Ohio Department of Education. The School received \$150,000 during the fiscal year.

Amounts awarded under federal grants for the 2003 fiscal year totaled \$316,308.

G. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the School will compensate the employees for the benefits through paid time off or some other means. The School records a liability for accumulated unused vacation time when earned for all eligible employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School has identified as probable of receiving benefits in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School's termination policy.

**W.C. CUPE COMMUNITY SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Prepaid items

Prepayments and deferrals represent cash disbursements which have occurred and are therefore not current expendable resources. These items are reported as assets on the balance sheet using the allocation method, which amortizes their cost over the periods benefiting from the advance payment.

I. Estimates

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

3. EQUITY IN POOLED CASH

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."

Deposits: At June 30, 2003, the carrying amount of the School's deposits was \$4,763 and the bank balance was \$37,509. The bank balance was covered by federal depository insurance.

Investments: The School's investments are categorized to give an indication of the level of risk assumed by the School at year end. Category 1 includes investments that are insured or registered for which the securities are held by the School or its agent in the School's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the School's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School's name. The School's investment totaling \$5,400 is maintained in a STAR Ohio account, which is not categorized because they are not evidenced by securities that exist in physical or book entry form.

4. RECEIVABLES

Receivables at June 30, 2003, consisted intergovernmental receivables (federal grants) and accounts receivables (miscellaneous receipts) totaling \$88,866. All receivables are considered collectable in full.

5. FIXED ASSETS

The following is a summary of the School's fixed assets at June 30, 2003:

<u>Classification</u>	
Modulars	\$ 50,861
Furniture and Equipment	24,447
Leasehold Improvements	<u>124,950</u>
Less: Accumulated Depreciation	<u>(19,265)</u>
Net Fixed Assets	<u>\$180,993</u>

**W.C. CUPE COMMUNITY SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

6. RISK MANAGEMENT

A. Property and Liability

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. For fiscal year 2003, the School contracted with State Farm Insurance for its insurance coverage as follows:

Buildings	\$ 1,376,500
Business Personal Property	94,900
Business Liability	1,000,000
Medical Payments	5,000
Products-Completed Operations	2,000,000
General Aggregate	2,000,000

B. Worker's Compensation

The School pays the State Worker=s Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

C. Employees 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 25 or more hours per week.

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School contributes to the School Employees Retirement System (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. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 9 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current rate is 14 percent 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 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003 and 2002 were \$53,950 and \$6,523. The School has contributed \$52,015 and the remainder has been recorded as a payable to State Pension Systems.

**W.C. CUPE COMMUNITY SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

The School contributes to the State Teachers Retirement System of Ohio (STRS), a cost sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

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. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates 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. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations for the fiscal years ended June 30, 2003 and 2002 were \$62,160 and \$46,714 respectively. The School has contributed \$53,354 and the remainder has been recorded as a payable to State Pension Systems.

**W.C. CUPE COMMUNITY SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

8. POST-EMPLOYMENT BENEFITS

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired noncertificated employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare premiums. Benefit provisions and the obligation to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

The State Teachers Retirement Board has authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of the coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year June 30, 2003, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$622 for the fiscal year ended June 30, 2003.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$2.8 billion at June 30, 2003 (the latest information available). For the fiscal year ended June 30, 2003, net health care costs paid by STRS were \$352,301,000 and STRS had 108,294 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal period, employer contributions to fund health care benefits were 5.83 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 2003, the minimum pay had been established at \$14,500. For the School, the amount to fund health care benefits, including surcharge, was \$41,032 for the fiscal year ended June 30, 2003.

Expenses for health care at June 30, 2002 were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, the Retirement System=s net assets available for payment of health care benefits is \$335.2 million. The number of benefit recipients currently receiving health care benefits is approximately 50,000 (the latest information available).

9. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining paid time off is derived from policies and procedures approved by the Board of Trustees. Certain employees had paid time off earned in fiscal year 2003 that had not been used at year end. Unused paid time off is shown as a current liability.

B. 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 25 or more hours per week. The School pays a portion of the monthly premiums for all selected coverage (medical, dental and/or vision).

**W.C. CUPE COMMUNITY SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

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.

11. CONTINGENCIES

A. Grants

The School received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the School. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2003.

B. Pending 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 was heard for oral argument on November 18, 2003. The effect of this suit, if any, on the School is not presently determinable.

C. Full-Time Equivalency Reviews

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 overpayment to the School in the amount of \$127. This amount is deemed immaterial and will not be reflected as Intergovernmental Payable on the balance sheet.

12. FISCAL AGENT

The service agreement states the Treasurer of the Lucas County Educational Service Center shall 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 allotments paid to the School from the State of Ohio. The total contract payment was \$14,506.

**W.C. CUPE COMMUNITY SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

12. FISCAL AGENT (Continued)

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

- A. Maintain custody of all funds received by the School in segregated accounts separate from Lucas County ESC or any other Community School=s funds;
- B. Maintain all books and accounts of the School;
- C. Maintain all financial records of all state funds of the School and follow State Auditor procedures for receiving and expending state funds;
- D. Assist the School in meeting all financial reporting requirements established by the Auditor of Ohio;
- E. 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
- F. 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.

13. PURCHASED SERVICES

For the period July 1, 2002 through June 30, 2003, purchased service expenses were payments for services rendered by various vendors, as follows:

Professional and Technical Services	\$67,038
Property Services	64,437
Travel Mileage/Meeting Expense	48,056
Communications	15,285
Utilities	16,416
Contracted Craft or Trade Services	350
Total Purchased Services	<u>\$211,582</u>

14. OPERATING LEASES

The School entered into a lease agreement with Greater Liberty Temple Church of God in Christ (the 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 will terminate June 2006. On April 23, 2003, the School and the Church amended the agreement whereby the commencement date changed to May 1, 2003 and will terminate on June 30, 2006. The lease has no option to renew and payments are 2,500 per month. Rent expense for the fiscal year 2003 was \$15,000.

The School also makes payments to GFC Leasing for a lease on Canon computers. This lease was under the ownership of the Church, however, payments for such equipment transferred over to the School with no formal transfer of property. Payments under the lease agreement are \$913 per month, and the lease expense was \$10,950 for fiscal year 2003.

**W.C. CUPE COMMUNITY SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

14. OPERATING LEASES (Continued)

Another agreement is held by the School with Storage USA 438 for use of a storage unit during the year. The agreement is setup on a month to month basis and can be terminated anytime.

15. RELATED PARTY TRANSACTIONS

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 \$16,454 through June 30, 2003.

One of the board members of the School, Robert Stephens provided Title I services to the School which had been contracted through Achievement Education Services and Educational Solutions management companies. The school has remitted payment to Robert Stephens in the amount of \$9,000.

16. 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.

W.C.CUPE COMMUNITY SCHOOL

FRANKLIN COUNTY

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003**

<u>Federal Grantor/ Pass Through Grantor Program Title</u>	<u>Pass Through Entity Number</u>	<u>Federal CFDA Number</u>	<u>Receipts</u>	<u>Disbursements</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<i>Passed Through Ohio Department of Education:</i>				
Nutrition Cluster:				
School Breakfast Program	05-PU 2002	10.553	\$ 986	\$ 986
School Breakfast Program	05-PU 2003	10.553	5,870	5,870
Total for CFDA 10.553			6,856	6,856
National School Lunch Program	LLP4-2002	10.555	10,345	10,345
National School Lunch Program	LLP4-2003	10.555	36,750	36,750
Total for CFDA 10.555			47,095	47,095
Total U.S. Department of Agriculture - Nutrition Cluster			53,951	53,951
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed Through Ohio Department of Education:</i>				
Title I Grants to Local Educational Agencies	C1S1-2002	84.010	26,650	26,650
Title I Grants to Local Educational Agencies	C1S1-2003	84.010	32,329	78,826
Total for CFDA 84.010			58,979	105,476
Safe and Drug-Free Schools and Communities State Grants	DRS1-2003	84.186	1,245	1,245
Charter Schools	CHS1-2002	84.282		150,000
Charter Schools	CHS1-2003	84.282	150,000	150,000
Total for CFDA 84.282			150,000	300,000
State Grants for Innovative Programs	C2S1-2003	84.298	1,358	1,359
Education Technology State Grants	TJS1-2003	84.318	654	-
Improving Teacher Quality State Grants	TRS1-2003	84.367	9,528	10,995
Total U.S. Department of Education			221,764	419,075
TOTAL FEDERAL RECEIPTS AND EXPENDITURES			\$ 275,715	\$ 473,026

The accompanying notes to this schedule are an integral part of this schedule.

**W.C.CUPE COMMUNITY SCHOOL
FRANKLIN COUNTY**

FISCAL YEAR ENDED JUNE 30, 2003

NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) summarizes activity of the School's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B – TRANSFER BETWEEN SPECIAL COST CENTER

The US Department of Education (USDOE) makes grant awards available to Ohio Department of Education (ODE), in general, for a period of 27 months. During that time, ODE is required to comply with program regulations and grant funds to local educational agencies for use in programs conducted in their local area. Using the same time frame as granted by the USDOE, ODE would award formula grants under the ESEA for a period of 27 months for all grants except Title I Basic Grants to States.

Each year beginning July 1, USDOE would provide another grant award to ODE for subgranting to local agencies. This created an overlap of grant awards to local agencies where up to 3 grant programs could be operating at the same time for exactly the same purpose. Under this scenario, each grant program was treated separately, with separate reporting and management requirements.

Beginning July 2002, a revised process was instituted by ODE to fund grants on a yearly cycle. For effective management of the grant projects from the USDOE, ODE chose this method for several reasons. First, a July 1 to June 30 fiscal period for each project aligns the project periods for all Federal and state projects as well as puts the projects on the same timing as the school's fiscal year mandated by the Ohio Revised Code. Second, this system permits the local educational agency to manage only one project from ODE rather than 3 under the previous system.

The transfers between cost centers are as follows:

Grant Name	CFDA Number	Transfer Out	Special Cost Center	Transfer In	Special Cost Center
Innovative Educational Program Strategies	84.298	\$ 158	2002	\$ 158	2003

NOTE C – TRANSFERS DUE TO ELIMINATION OF CFDA's

Starting July 1, 2003, the Ohio Department of Education (ODE) combined the following CFDA numbers; 84.281 and 84.340, into CFDA 84.367. The ODE required that the funds carried over from grant year 2002 be transferred to the CFDA 84.367. The following table indicates the funds the School transferred between the aforementioned CFDA numbers for year end June 30, 2003:

Grant	CFDA Number	Transfer In/(Out)
Eisenhower Professional Development State Grants – Title II, Part B	84.281	\$ (275)
Class Size Reduction Grant	84.340	\$ (203)
Title II A – State Grants for Improving Teaching Quality	84.367	\$ 478



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

To the Board of Trustees:

We have audited the financial statements of the W.C. Cupe Community School, Franklin County, Ohio, (the School) as of and for the year ended June 30, 2003, and have issued our report thereon dated September 16, 2004. 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 we must report 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 in order 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. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2003-001.

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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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider reportable condition 2003-001 listed above to be a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the School's management in a separate letter dated September 16, 2004.

This report is intended solely for the information and use of the audit committee, management, the Board of Trustees, and 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.

A handwritten signature in black ink that reads "Betty Montgomery". The script is cursive and fluid.

Betty Montgomery
Auditor of State

September 16, 2004



Auditor of State Betty Montgomery

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

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

To the Board of Trustees:

Compliance

We have audited the compliance of the W.C. Cupe Community School, Franklin County, Ohio (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 its major federal program for the year ended June 30, 2003. The School's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. 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 occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. 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 on the School's compliance with those requirements.

As described in item 2003-002 in the accompanying schedule of findings, the School did not comply with the requirements regarding reporting that are applicable to its Charter Schools federal program. Compliance with such requirements is necessary in our opinion, for the School to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the School complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003. We noted a certain matter of noncompliance that does not require inclusion in this report that we have reported to management of the School in a separate letter dated September 16, 2004.

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Internal Control Over Compliance

The management of the School is responsible for establishing and maintaining effective internal control over compliance with 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.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the School's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. A reportable condition is described in the accompanying schedule of findings as item 2003-002.

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 noncompliance with applicable requirements of laws, regulations, contracts and grants 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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable condition described as item 2003-002 is considered to be a material weakness. We also noted other matters involving the internal control over federal compliance that do not require inclusion in this report, that we have reported to management of the School in a separate letter dated September 16, 2004.

This report is intended for the information and use of the audit committee, management, the Board of Trustees, and 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.



Betty Montgomery
Auditor of State

September 16, 2004

**THE W.C. CUPE COMMUNITY SCHOOL
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 ' .505
JUNE 30, 2003**

1. SUMMARY OF AUDITOR=S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	Yes
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs= Compliance Opinion	Qualified
(d)(1)(vi)	Are there any reportable findings under ' .510?	No
(d)(1)(vii)	Major Programs (list):	Charter Schools CFDA # 84.282
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

**W.C. CUPE COMMUNITY SCHOOL
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 ' .505
JUNE 30, 2003
(Continued)**

2. FINDING RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2003-001
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Segregation of Duties

Reportable Condition/Material Weakness

Segregation of duties is a key element of any effective internal control system. The CEO is responsible for hiring employees, approving contracts, purchasing goods and services, petty cash handling, and serving as a Board Member. In addition, the CEO and her husband, who serve as board members, serve as board members and President and Vice President of Educational Solutions Co., a tax-exempt charitable and educational organization that was organized by the School and is operated to support the School as an IRC Section 509(a)(3) supporting organization. Performing all of these functions increases the possibility that errors or irregularities may occur and not be detected in a timely manner.

We recommend management delegate certain responsibilities to other employees (e.g. the Principal of the School or Secretary) or establish monitoring controls and put them in place over all of these incompatible functions.

3. FINDING FOR FEDERAL AWARDS

1. Reporting

Noncompliance/Material Weakness

Finding Number	2003-002
CFDA Title and Number	84.282
Federal Award Number / Year	2002-2003
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

In accordance with the federal guidelines governing the Ohio Public Charter Schools Program grant, an Annual Performance Report (Activities Report) is due to the Office of Community Schools within 60 days of expending the funds or within 60 days of the end of the grant award period, whichever comes first.

In addition, Final Expenditure Reports must be submitted to the Office of Grants Management within 60 days of the end of the grant period or after all the funds are expended, whichever comes first.

The School did not submit the Activities Report within 60 days of expending the funds or within 60 days of the end of the grant award period. In addition, the School prepared its Final Expenditure Report, yet did not submit it within 60 days of the end of the grant period or after all the funds were expended to the Office of Grants Management. As of the date of our report the above reports have not been submitted.

We recommend that the School implement procedures to ensure required reports are submitted timely and to the appropriate Office.



**Auditor of State
Betty Montgomery**

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**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
DECEMBER 7, 2004**