OAKSTONE COMMUNITY SCHOOL
FRANKLIN COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2006

Mary Taylor, CPA
Auditor of State

OAKSTONE COMMUNITY SCHOOL
FRANKLIN COUNTY

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Mary Taylor, CPA
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INDEPENDENT ACCOUNTANTS' REPORT

Oakstone Community School
Franklin County
5747 Cleveland Avenue
Columbus, Ohio 43231-2831

To the Board of Trustees:

We have audited the accompanying basic financial statements of the Oakstone Community School, Franklin County, Ohio (the School) as of June 30, 2006. 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 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 respective financial position of the Oakstone Community School, Franklin County, Ohio, as of June 30, 2006, and the changes in its financial position and its cash flows for the period then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 15 to the financial statements, the School has a deficit net asset balance of $179,237 as of June 30, 2006 and experienced certain financial difficulties during the fiscal year. Note 15 also describes Management's plans regarding this matter.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 2, 2007, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

May 2, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006
UNAUDITED

The discussion and analysis of the Oakstone Community School's (the "School") financial performance provides an overall review of the School's financial activities for the year ended June 30, 2006. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School's financial performance.

Financial Highlights

Key financial highlights for 2006 are as follows:

- In total, net assets were a deficit of $179,237 at June 30, 2006.
- The School had operating revenues of $1,873,563, operating expenses of $2,306,675 and non-operating revenues of $338,330 for fiscal year 2006. Total change in net assets for the fiscal year was a decrease of $94,782.

Using these Basic Financial Statements

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 School's financial activities. The *Statement of Net Assets* and *Statement of Revenues, Expenses and Changes in Net Assets* provide information about the activities of the School, including all short-term and long-term financial resources and obligations.

Reporting the School's Financial Activities

Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows

These documents look at all financial transactions and ask the question, How did we do financially during 2006? The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account 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 changes in those assets. 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 causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 7 and 8 of this report.

The statement of cash flows provides information about how the School finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 9 of this report.

The table below provides a summary of the School's assets, liabilities and net assets for fiscal year 2006 and 2005.

Assets, Liabilities and Net Assets

	2006	2005
Assets		
Current assets	$ 46,926	$ 155,762
Non-current assets, net	159,333	51,225
Total assets	206,259	206,987
Liabilities		
Current liabilities	378,822	259,817
Long term liabilities	6,674	31,625
Total liabilities	385,496	291,442
Net Assets		
Invested in capital assets	123,392	14,325
Restricted	32,000	32,000
Unrestricted (deficit)	(334,629)	(130,780)
Total net assets (deficit)	$ (179,237)	$ (84,455)

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the School's net assets were a deficit of $179,237 compared to a deficit of $84,455 at June 30, 2005. The School's deficit net assets increased $94,782 during fiscal year 2006 primarily due to the addition of two new staff members, the addition of six new students, and first-time audit costs. Fiscal year 2006 was the School's first full year in operation.

At June 30, 2006, capital assets represented 59.82% of total assets. Capital assets consisted of furniture and computer equipment. There is no debt related to these capital assets. Capital assets are used to provide services to the students and are not available for future spending.

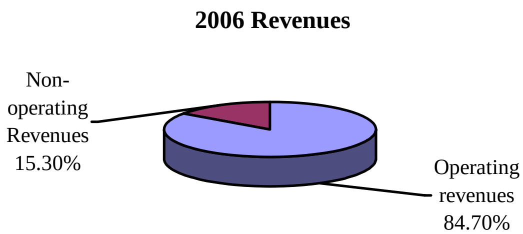
The table below shows the changes in net assets for fiscal year 2006 and 2005.

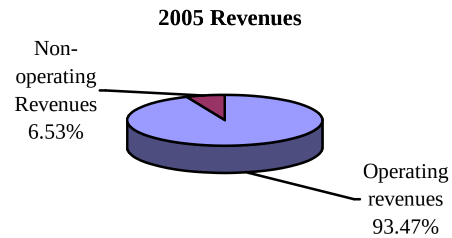
Change in Net Assets

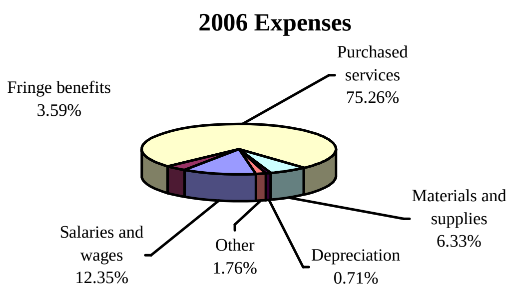
	2006	2005
Operating Revenues:		
State foundation	$ 1,856,893	$ 1,270,588
Charges for services	15,000	-
Other	1,670	-
Total operating revenue	1,873,563	1,270,588
Operating Expenses:		
Salaries and wages	284,839	214,795
Fringe benefits	82,790	84,854
Purchased services	1,736,021	1,139,161
Materials and supplies	146,018	3,136
Depreciation	16,343	1,222
Other	40,664	590
Total operating expenses	2,306,675	1,443,758
Non-operating Revenues:		
Federal and State grants	333,969	77,452
Donations	175	10,600
Interest income	4,186	663
Total non-operating revenues	338,330	88,715
Change in net assets	(94,782)	(84,455)
Net assets (deficit) at beginning of year	(84,455)	-
Net assets (deficit) at end of year	$ (179,237)	$ (84,455)

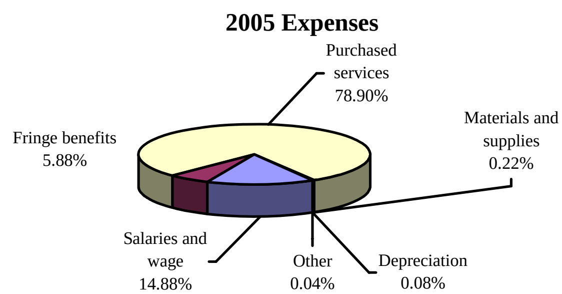
Fiscal year 2006 was the School's first full year in operation. This led to increased state foundation revenues, purchased services, and materials and supplies expenses. Federal and state grants increased $256,517 from start-up monies received which went toward the purchase of computer equipment. Charges for services revenue of $15,000 represents fees charged to Oakstone Academy/Children's Center for Developmental Enrichment (CCDE) for services provided to CCDE students. The School did not solicit donations during 2006 which led to a decline in donations revenue. Salaries and wages increased during 2006 with the addition of two new staff members.

The charts below illustrate the revenues and expenses for the School during fiscal 2006 and 2005.









Capital Assets

At June 30, 2006, the School had $123,392 invested in furniture and computer equipment. Capital assets increased $109,067 in 2006. The School had $124,451 in capital asset additions and $15,384 in depreciation expense for the year. See Note 4 to the basic financial statements for more detail on capital assets.

Debt Administration

During fiscal year 2006, the School entered into a line of credit agreement which would allow the School to borrow up to $100,262. At June 30, 2006, the School had no debt outstanding.

Current Financial Related Activities

The School is sponsored by the Delaware-Union Educational Service Center. The School is reliant upon State Foundation monies and State and Federal Grants to offer quality, educational services to students.

In order to continually provide learning opportunities to the School's students, the School will apply resources and to best meet the needs of its students. It is the intent of the School to apply for other State and Federal funds that are made available to finance its operations.

Contacting the School's Financial Management

This financial report is designed to provide our clients 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 financial information contact Barbara Henry, Treasurer, Oakstone Community School, 5747 Cleveland Avenue, Columbus, Ohio 43231.

OAKSTONE COMMUNITY SCHOOL
FRANKLIN COUNTY

STATEMENT OF NET ASSETS
JUNE 30, 2006

Assets:	
Current assets:	
Cash	$36,309
Intergovernmental	6,909
Prepaids	3,708
Total current assets	46,926
Non-current assets:	
Security deposit	32,000
Oganizational costs, net of amortization	3,941
Capital assets, net	123,392
Total non-current assets	159,333
Total assets	206,259
Liabilities:	
Current:	
Accounts payable	330,721
Accrued wages and benefits	40,157
Intergovernmental payable	7,944
Total current liabilities	378,822
Long-term liabilities:	
Compensated absences	6,674
Total liabilities	385,496
Net Assets:	
Invested in capital assets	123,392
Restricted for:	
Security deposit	32,000
Unrestricted (deficit)	(334,629)
Total net assets (deficit)	($179,237)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

OAKSTONE COMMUNITY SCHOOL
FRANKLIN COUNTY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006

Operating revenues:	
State foundation	$1,856,893
Charges for services	15,000
Other	1,670
Total operating revenues	1,873,563
Operating expenses:	
Salaries and wages	284,839
Fringe benefits	82,790
Purchased services	1,736,021
Materials and supplies	146,018
Depreciation and amortization	16,343
Other	40,664
Total operating expenses	2,306,675
Operating loss	(433,112)
Non-operating revenues:	
Federal and State grants	333,969
Donations	175
Interest income	4,186
Total non-operating revenues	338,330
Change in net assets	(94,782)
Net assets (deficit) at beginning of year	(84,455)
Net assets (deficit)at end of year	($179,237)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

OAKSTONE COMMUNITY SCHOOL
FRANKLIN COUNTY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2006

Cash flows from operating activities:	
Cash received from State foundation	$1,873,532
Cash received from customers	15,000
Cash received from other operations	1,670
Cash payments for salaries and benefits	(407,696)
Cash payments to suppliers for goods and services	(1,609,478)
Cash payments for materials and supplies	(130,868)
Cash payments for other operating activities	(41,385)
Net cash used in operating activities	(299,225)
Cash flows from noncapital financing activities:	
Federal and state grants	371,717
Donations	175
Net cash provided by noncapital financing activities	371,892
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(124,451)
Net cash used in capital and related financing activities	(124,451)
Cash flows from investing activities:	
Interest received	4,186
Net cash provided by investing activities	4,186
Net decrease in cash and cash equivalents	(47,598)
Cash and cash equivalents at beginning of year	83,907
Cash and cash equivalents at end of year	$36,309
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	($433,112)
Adjustments:	
Depreciation and amortization	16,343
Changes in assets and liabilities:	
Decrease in prepayments	6,851
Decrease in intergovernmental receivable	16,639
Increase in accounts payable	138,613
Decrease in intergovernmental payable	(2,204)
Decrease in accrued wages and benefits	(17,404)
Decrease in compensated absences payable	(24,951)
Net cash used in operating activities	($299,225)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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NOTE 1 - DESCRIPTION OF THE SCHOOL

The Oakstone 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. The School specializes in providing educational services to special needs children with Autism Spectrum Disorders. Specific activities in support of the School include general teaching, therapy and socialization activities. The School, which is part of the State’s education program, is nonsectarian in its programs, admission policies, employment practices and all other operations. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School.

The School was approved under contract with the Delaware-Union Educational Service Center (the “Sponsor”) for a period of five years commencing September 20, 2004. The School began operations on October 4, 2004. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration.

The School operates under the direction of a self-appointed five-member Board of Trustees. 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 qualification of teachers. The School is staffed by 2 non-certified staff members and 5 certificated teaching personnel who provide services to 74 students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the School have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. 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 prior to November 30, 1989, provided those pronouncements do not conflict with or contradict GASB pronouncements. The School has elected not to apply FASB Statements and Interpretations issued after November 30, 1989. The School's significant accounting policies are described below.

A. Basis of Presentation

The School’s basic financial statements consist of a Statement of Net Assets, a Statement of Revenues, Expenses, and Changes in Net Assets, and a Statement of Cash Flows.

The School uses a single enterprise presentation. Enterprise reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

B. Measurement Focus

Enterprise activity is accounted for using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the School are included on the statement of net assets. The statement of revenues, expenses and changes in net assets presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets. The statement of cash flows reflects how the School finances meet its cash flow needs.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Basis of Accounting

Basis of accounting determines when transactions are recognized in the financial records and reported on the financial statements. The School's financial statements are prepared using the accrual basis of accounting. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Revenue 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 period in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the period when the resources are required to be used or the period when use is first permitted, matching requirements, in which the School must provide local resourced to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. Expenses are recognized at the time they are incurred.

D. Budgetary Process

Unlike other public schools located in the State of Ohio, the School is not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705, unless specifically provided in the contract between the School and its sponsor. The contract between the School and its Sponsor prescribes an annual budget requirement in addition to preparing a five-year forecast which is updated on an annual basis.

E. Cash

Cash received by the School is reflected as "Cash" on the Statement of Net Assets. The School did not have any investments during the period ended June 30, 2006.

F. Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The School maintains a capitalization threshold of $1,000. The School does not have 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. The School does not capitalize interest.

All capital assets are depreciated. The School's capital assets consist of furniture and equipment. Depreciation is computed using the straight-line method. Equipment is depreciated over five years.

G. Compensated Absences

Vacation and sick leave 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. Unused sick leave is banked for use during the following school year. The School records a liability for employees with accumulated unused vacation and sick leave when earned.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

H. Prepayments

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase by the School and the expense is recorded when used. The School also prepaid retirement contributions (see Note 7.B.). The School has prepaid items of $3,708 at June 30, 2006.

I. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The School had restricted net assets related to amounts held by a lessor as part of the School's lease agreement.

J. 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.

K. Estimates

The preparation of financial statements in conformity with GAAP 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.

NOTE 3 - DEPOSITS

Custodial credit risk is the risk that, in the event of bank failure, the School's deposits may not be returned. The School does not have a deposit policy for custodial credit risk. At June 30, 2006, the carrying amount of the School's deposits was $36,309 and the bank balance was $39,322. The entire bank balance was covered by the Federal Deposit Insurance Corporation (FDIC). There are no significant statutory restrictions regarding the deposit and investment of funds by the non-profit corporation.

NOTE 4 - CAPITAL ASSETS

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

	Balance at June 30, 2005	Additions	Disposals	Balance at June 30, 2006
Depreciable capital assets:				
Furniture and equipment	$ 14,692	$124,451	$ -	$ 139,143
Less: accumulated depreciation	(367)	(15,384)	-	(15,751)
Capital assets, net	$ 14,325	$109,067	$ -	$ 123,392

NOTE 5 - BUILDING LEASE AND SECURITY DEPOSIT

The School operations are located in space leased from the Oakstone Academy/Children's Center for Developmental Enrichment (CCDE). As part of the original lease agreement, the School was required to pay a security deposit of $32,000. This amount is being held by the Lessor and will be remitted to the School at the end of the lease if all lease commitments are paid. The lease agreement for fiscal year 2006 required $156,000 in lease payments. Lease payments for fiscal year 2006 were $130,000. The School owes $103,895 to CCDE as of June 30, 2006 for unpaid rent for fiscal year 2005 and 2006. The lease expired on June 30, 2006, but was renewed for fiscal year 2007.

NOTE 6 - RECEIVABLES

At June 30, 2006, receivables consisted of intergovernmental receivables of $6,909 in federal grants. The receivables are expected to be collected in full within one year.

NOTE 7 - 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 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School 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 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 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 statutory maximum amounts, by the SERS' Retirement Board.

NOTE 7 - PENSION PLANS - (Continued)

A. School Employees Retirement System (Continued)

The School's required contribution for pension obligations to SERS for the fiscal year ended 2006 was $10,051. 92.11 percent has been contributed for the fiscal year. Through foundation deductions, the School remitted $9,258. $793 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability.

B. State Teachers Retirement System

The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 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 percent 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, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

NOTE 7 - PENSION PLANS - (Continued)

B. State Teachers Retirement System (Continued)

The School's required contributions for fund pension obligations to the DB Plan for the fiscal years ended June 30, 2006, and 2005, were $31,562 and $35,330, respectively. 100 percent has been contributed for fiscal year 2006 and fiscal year 2005. Through foundation deductions, the School remitted $34,115 resulting in prepaid contributions of $2,553. Contributions to the DC and Combined Plans for fiscal year 2006 were $4,620 made by the School and $4,400 made by the plan members.

NOTE 8 - POSTEMPLOYMENT BENEFITS

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations 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.

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS 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 health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled $2,254 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, the balance in the Health Care Stabilization Fund was $3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS were $282.743 million and STRS had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of 0.01 percent from fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at $35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, School paid $4,234 to fund health care benefits, including the surcharge.

NOTE 8 - POSTEMPLOYMENT BENEFITS (Continued)

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 fund is 150 percent of the projected claims less premium contributions for the next fiscal year. Net health care costs for the fiscal year ended June 30, 2006 were $158.751 million. As of June 30, 2006, the value of the health care fund was $295.6 million, which is about 221 percent of next year's projected net health care costs. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 59,492 participants currently receiving health care benefits.

NOTE 9 - 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. During the period ended June 30, 2006, the School contracted with Auto Owner Insurance Company for property and general liability insurance with a $1,000,000 single occurrence limit and $2,000,000 annual aggregate and a $2,500 deductible for directors and officers and a $5,000 deductible for employment related.

B. Workers Compensation

The School pays the State Workers Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor determined by the State. The School owed $1,536 for this premium on January through June 2006 wages and accrued wages. The liability is reflected in the financial statements at June 30, 2006.

NOTE 10 - EMPLOYEE BENEFITS

The School provides health, drug, and dental insurance for all eligible employees through Anthem Blue Cross and Blue Shield and Principle Dental. The School pays 73% of the monthly premium and employees pay the remaining 27%. The School provides life insurance and accidental death and dismemberment insurance to employees through Anthem Blue Cross and Blue Shield.

NOTE 11 - PURCHASED SERVICES

For fiscal year ended June 30, 2006, purchased services expenses were as follows:

Professional and Technical Services	$ 1,500,767
Property Services	207,895
Travel/Mileage/Meeting Expense	400
Other Purchased Services	26,959
Total	$ 1,736,021

NOTE 12 - CONTRACTS

A. Sponsor Contract

The School entered into a five-year contract commencing on September 20, 2004 and continuing through September 19, 2009 with Delaware-Union Educational Service Center (the "Sponsor") for its establishment. Under the contract, the following terms were agreed upon:

- The School shall operate in substantial compliance with its "Educational Program", which contains the School's mission, educational philosophy, the ages and grades of students, the characteristics of the students the School is expected to attract, the School calendar, the academic goals and the method of measurement that will be used to determine progress toward those goals, graduation requirements, and the focus of the curriculum.

- The School shall operate in substantial compliance with a "Financial Plan", which establishes an estimated school budget for each year and a total estimated per pupil expenditure amount for each such year.

- The School shall secure the services of a Chief Executive Officer, who shall be the chief operating officer of the school, with primary responsibility for day-to day operations of the School, and a liaison between the School and Sponsor.

- The School shall annually pay to the Sponsor, from funding provided to the School by the Ohio Department of Education (ODE) pursuant to Section 3314.08 of the Ohio Revised Code, $155 per student per year and such other amounts as mutually agreed, including fees for any services provided to the School by the Sponsor.

B. Management Contract

The School entered into an Administrative Management agreement with CCDE for Administrative Services for the period August 29, 2005 through June 30, 2006 in the amount of $33,000. CCDE will provide services in the area of human resources, accounting, staff training and support, secretarial, administrative, data entry, and curriculum and program development. Payments to CCDE for Administrative Services amounted to $33,000 during fiscal year 2006.

C. Service Contract

The School entered into Placement Contracts with CCDE to provide for educational services to each student in order to assist the School in meeting the educational needs and to provide the necessary services of the student's Individual Educational Plan. The required amount due to CCDE under the Placement Contracts was $1,475,102 during fiscal year 2006.

NOTE 13 - CONTINGENCIES

A. Grants

The School received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. 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, 2006.

B. Litigation

A suit was filed in the U.S. District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The case is still pending. The effect of this suit, if any, on the Oakstone Community School is not presently determinable.

C. Ohio Department of Education Enrollment Review

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The fiscal year 2006 review resulted in the discovery of an underpayment to the School in the amount of $67. This amount will be received during fiscal year 2007.

NOTE 14 - DEBT

On November 15, 2005, the School entered into a line of credit agreement with an initial interest rate of 8.00% that would allow the School to borrow up to $100,262. The School did not draw from the line of credit during fiscal year 2006 and at June 30, 2006 the School had no debt outstanding.

NOTE 15 – MANAGEMENT'S PLAN

During the first two years of its existence the School experienced operating losses, and as of June 30, 2006, the School had deficit net assets of $179.237. During these years enrollment and revenues had not yet grown to a sufficient level to cover fixed operating costs, such as educational services, facilities and administrative costs, so the School experienced losses.

The Board voted on a budget in which revenues exceeded expenses for fiscal year 2006. Expenses actually exceeded revenues because the School incurred costs to expand its facilities, hire administrative staff, and for educational services for a growing student population prior to receiving revenues sufficient to pay for these costs. As of June 30, 2006, the School owed CCDE $306,784 for educational services and rent provided in fiscal year 2005 and 2006. Using fiscal year 2007 foundation income, the School had paid off this balance by September 2006.

NOTE 15 – MANAGEMENT'S PLAN (Continued)

The School also entered fiscal year 2007 expecting that revenues would exceed expenses. In September 2006, the OCS board and administration made the decision to continue to increase enrollment, which, because the School's administrative staff and facilities were largely already in place, could be done with less of an increase in expenses than the expected increase in revenues. As a result, the number of students being served rose from 75 in September 2006 to 122 students in May 2007. Total foundation revenue for fiscal year 2007 is expected to be close to $3 million, and the School expects to experience its first year with an operating profit. In addition, the School has been able to use Title monies where allowed to pay for certain operating costs, which has improved operating income.

As with fiscal year 2006, the School expects to pay off any outstanding balance owed to CCDE at June 30, 2007, soon after the end of the fiscal year.

NOTE 16 - SUBSEQUENT EVENT

The School entered into an Administrative Management agreement with CCDE for Administrative Services for the period July 1, 2006 through June 30, 2007 in the amount of $30,000.

Mary Taylor, CPA
Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Oakstone Community School
Franklin County
5747 Cleveland Ave.
Columbus, Ohio 43231-2831

To the Board of Trustees:

We have audited the financial statements of Oakstone Community School, Franklin County, Ohio (the School) as of June 30, 2006, which collectively comprise the School's basic financial statements and have issued our report thereon dated May 2, 2007, wherein we noted the School had a deficit net asset balance as of June 30, 2006 and experienced certain financial difficulties during the fiscal year. 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 the Comptroller General of the United States' *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 to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. 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. Reportable conditions are described in the accompanying schedule of findings as items 2006-001 and 2006-002.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when 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 material weaknesses. However, we do not believe the reportable conditions described above are material weaknesses. In a separate letter to the School's management dated May 2, 2007, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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Compliance and Other Matters

As part of reasonably assuring whether the Government's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2006-003.

We intend this report solely for the information and use of management and the Board of Trustees. It is not intended for anyone other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

May 2, 2007

SCHEDULE OF FINDINGS
JUNE 30, 2006

FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2006-001

REPORTABLE CONDITION

The School's bank reconciliation should be accurately completed each month and reviewed for accuracy and completeness. Reconciling items should be posted to the accounting system, if necessary, in a timely manner. The reconciliation should be reviewed each month by the Superintendent and Board.

Review of the School's reconciliation of the bank account to the accounting records reflected the School was out of balance by $14,684.58. The School's reconciliations prepared throughout the fiscal year only documented the differences between the bank and the book and in some months documented an unreconciled difference of up to $2,400. The Treasurer was not able to provide explanations or support for the total differences which resulted in the accounting being out of balance. In addition, errors identified by the Treasurer were not posted to the accounting system.

Through tests of the School's recorded activity, compared with amounts clearing the bank, numerous errors were noted, including: (1) items being improperly recorded in the accounting system; (2) items clearing the bank that were never recorded in the accounting system; (3) payroll deductions due were not all remitted to the appropriate vendors; and (4) duplicate payments of payroll deductions. The $14,684.58 was identified by the auditors as follows:

Description of errors noted	Adjustments to fund balance	Items to clear the bank
Fiscal Year 2005 audit adjustments that were not recorded	($128.09)	
Bank Services fees that were not posted	(68.45)	
September Interest Receipt was recorded twice	(262.99)	
Check #s 1053 and 1054 were not recorded	(3,629.67)	
Check written to employee for deductions was not recorded	(53.70)	
Line of Credit fees that were not recorded	(267.00)	
July 1, 2006 payroll paid on June 30, 2006 was not recorded	(12,260.12)	
1st Quarter 2006 payment to City of Columbus was not recorded	(67.66)	
Differences between amounts recorded and amounts remitted for payroll deductions	(1.71)	
Difference in amount recorded and amount cleared for check #1184	.02	
Employee deductions from gross wages that were not remitted		($2,381.15)
Amounts outstanding for 7/1/06 Payroll that cleared in June 2006		(541.32)
Amount improperly remitted to STRS for employee contributions		867.68

The lack of properly preparing and reviewing monthly bank reconciliations could allow errors and unresolved reconciling items to go undetected and lead to an out of balance condition as of June 30, 2006. This also resulted in a Finding for Recovery. See Finding 2006-003. Adjustments were proposed to reconcile and are reflected in the financial statements and the School's accounting records.

We recommend the School develop procedures to ensure that monthly bank reconciliations are accurately prepared and that all reconciling items are specifically identified and then subsequently posted to the accounting system if necessary. We also recommend the Superintendent and Board review and approved the reconciliations via signature.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2006-001 (Continued)

REPORTABLE CONDITION (Continued)

Officials' Response: Each month the Superintendent and Treasurer will meet to reconcile each bank statement. Any items which have not been reconciled will be done immediately. A Finance Board member will be part of this process as well.

FINDING NUMBER 2006-002

REPORTABLE CONDITION

The School should record all financial activity in one accounting system as the activity occurs.

The School operated two accounting systems during fiscal year 2006. The Treasurer entered financial activity into the MEC accounting system. An employee of the Children's Center for Developmental Enrichment (CCDE), a vendor that provides student and management services to the School, also entered financial activity in a Quickbooks accounting system. The employee of CCDE prepared School checks out of the Quickbooks System and then they were subsequently entered into MEC by the Treasurer.

The use of two accounting systems has lead to errors and irregularities in the School's ledgers maintained by the Treasurer, including items not entered or incorrectly entered and check numbers in MEC that do not match check numbers that cleared the bank. The use of the two systems may have also contributed to the bank reconciliation problem (see Finding 2006-001 above) since the Quickbooks system was reconciled and the MEC system was not.

The use of two accounting systems could also lead to mismanagement of School funds if all information is not entered into the accounting system used to generate management reports.

We recommend the School utilize only one accounting system and ensure all financial activity is recorded in that system as it occurs.

Officials' Response: The process described in our response to Finding Number 2006-001 will be implemented. There will not be two accounting systems.

FINDING NUMBER 2006-003

FINDING FOR RECOVERY REPAID UNDER AUDIT

Employee withholdings for State Teacher's Retirement System (STRS) contributions are automatically deducted from the School's Payroll bank account each time the School processes payroll payments. On May 1, 2006, $867.68 was deducted from the School's payroll bank account for employee contributions for the first pay in May 2006. On May 3, 2006, this same amount was deducted again for the first pay in May 2006.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2006-003 (Continued)

FINDING FOR RECOVERY REPAID UNDER AUDIT (Continued)

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended would have been issued against Barb Henry, Treasurer, in the amount of $867.68 in favor of the School.

The School received a reimbursement from STRS in the amount of $867.68 on May 1, 2007.

Officials' Response: The Treasurer received notice from STRS indicating that it had not received employee contributions for the first pay in May 2006. Instead of checking with the bank, the Treasurer reissued another payment. In the future, should a similar notice be received from any vendor, the Treasurer will call the bank to ensure the information is correct before reissuing a payment. On May 1, 2007, the duplicate payment was returned to the School.

OAKSTONE COMMUNITY SCHOOL
FRANKLIN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2006

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2005-001	Finding For Recovery for Overpayment of Insurance	Yes	

Mary Taylor, CPA
Auditor of State

OAKSTONE COMMUNITY SCHOOL

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JUNE 12, 2007

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