OAKSTONE COMMUNITY SCHOOL
FRANKLIN COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2007

Mary Taylor, CPA
Auditor of State

OAKSTONE COMMUNITY SCHOOL
FRANKLIN COUNTY

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INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Directors:

We have audited the accompanying basic financial statements of the Oakstone Community School, Franklin County, Ohio (the School), as of and for the year ended June 30, 2007. 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 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 opinion.

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, 2007, and the changes in its financial position and its 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 March 7, 2008, 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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www.auditor.state.oh.us

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

March 7, 2008

OAKSTONE COMMUNITY SCHOOL
FRANKLIN COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007
(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, 2007. 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 2007 are as follows:

- In total, net assets were $209,015 at June 30, 2007.

- The School had operating revenues of $3,166,445, operating expenses of $2,990,864 and non-operating revenues of $212,671 for fiscal year 2007. Total change in net assets for the fiscal year was an increase of $388,252.

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 asks the question, "How did we do financially during 2007? " 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 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 2007 and 2006.

Assets, Liabilities and Net Assets

	2007	2006
Assets		
Current assets	$ 158,652	$ 46,926
Non-current assets, net	196,299	159,333
Total assets	354,951	206,259
Liabilities		
Current liabilities	139,686	378,822
Long term liabilities	6,250	6,674
Total liabilities	145,936	385,496
Net Assets		
Invested in capital assets	161,318	123,392
Restricted	32,000	32,000
Unrestricted (deficit)	15,697	(334,629)
Total net assets (deficit)	$ 209,015	$ (179,237)

Current Assets increased significantly in fiscal year 2007. This increase was due to a $126,000 receivable for services provided to the Children's Center for Developmental Enrichment (CCDE) offset by a decrease in cash. The School's cash balance at June 30, 2007, was only $1,832 due to the School's decision to ensure all prior year liabilities were paid in full by June 30 and due to the timing of the July 1 payroll requiring payment prior to June 30.

At June 30, 2007, capital assets represented 45.45% 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.

Current liabilities decreased significantly in fiscal year 2007 as a result of the School's decision to ensure all prior year accounts payable were paid in full by June 30.

The School's long term liabilities consist of compensated absences only.

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2007, the School's net assets were $209,015 compared to a deficit of $179,237 at June 30, 2006. The School's net assets increased $388,252 during fiscal year 2007 primarily due to a significant increase in state foundation revenues and increases in charges for services revenues. While the School's expenses also significantly increased, they did not increase at the same rate as the revenues.

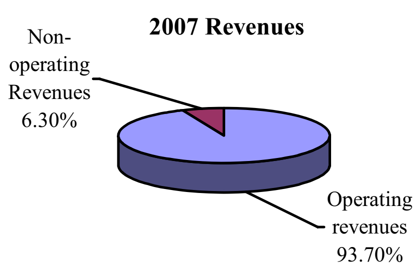
The table below shows the changes in net assets for fiscal year 2007 and 2006.

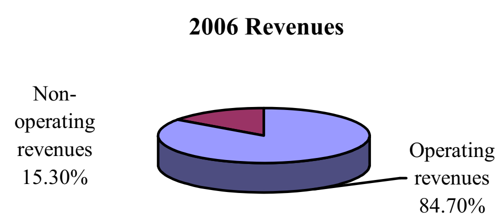
Change in Net Assets

	2007	2006
Operating Revenues:		
State foundation	$ 3,040,046	$ 1,856,893
Charges for services	126,000	15,000
Other	399	1,670
Total operating revenue	3,166,445	1,873,563
Operating Expenses:		
Salaries and wages	404,620	284,839
Fringe benefits	103,329	82,790
Purchased services	2,318,494	1,736,021
Materials and supplies	75,230	146,018
Depreciation and amortization	36,095	16,343
Other	53,096	40,664
Total operating expenses	2,990,864	2,306,675
Non-operating Revenues:		
Federal and State grants	205,910	333,969
Donations	85	175
Interest income	6,676	4,186
Total non-operating revenues	212,671	338,330
Change in net assets	388,252	(94,782)
Net assets (deficit) at beginning of year	(179,237)	(84,455)
Net assets (deficit) at end of year	$ 209,015	$ (179,237)

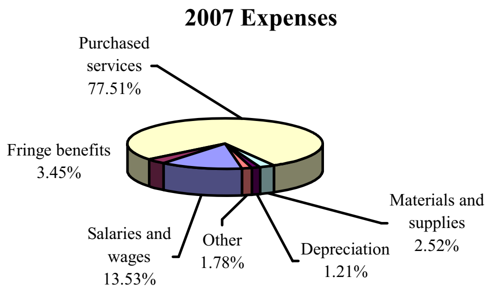
State foundation revenue increased because enrollment for the School went from 74 students at June 30, 2006, to 112 students at June 30, 2007. Charges for services revenue increased as the School provided more education services. Interest income increased because the School had more funds available on which to earn interest during fiscal year 2007. Federal and State grant revenue decreased due to the School no longer qualifying for start-up grants from Federal and State sources. Salaries and wages increased during 2007 with the addition of four new staff members due to increased enrollment. Purchased services increased due to the increase in enrollment.

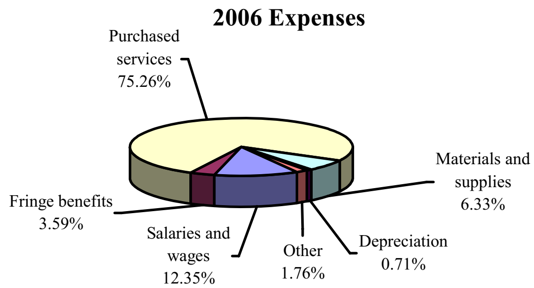
The charts below illustrate the revenues for the School during fiscal 2007 and 2006.





The charts below illustrate the expenses for the School during fiscal 2007 and 2006.





Capital Assets

At June 30, 2007, the School had $161,318 invested in furniture and computer equipment. Capital assets increased $37,926 in 2007. The School had $73,061 in capital asset additions and $35,135 in depreciation expense for the year. See Note 4 to the basic financial statements for more detail on capital assets.

Debt Administration

In a prior fiscal year, the School entered into a line of credit agreement which would allow the School to borrow up to $100,262. The School did not borrow from this line of credit during fiscal y ear 2007. At June 30, 2007, 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 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 Johanna Gladman, CPA, Fiscal Officer, Oakstone Community School, 5747 Cleveland Avenue, Columbus, Ohio 43231.

OAKSTONE COMMUNITY SCHOOL
FRANKLIN COUNTY, OHIO

STATEMENT OF NET ASSETS
JUNE 30, 2007

Assets:	
Current assets:	
Cash	$ 1,832
Receivables:	
Accounts	126,000
Intergovernmental	19,780
Prepaids	11,040
Total current assets	158,652
Non-current assets:	
Security deposit	32,000
Oganizational costs, net of amortization	2,981
Capital assets, net	161,318
Total non-current assets	196,299
Total assets	354,951
Liabilities:	
Current:	
Accounts payable	28,173
Accrued wages and benefits	54,849
Intergovernmental payable	56,664
Total current liabilities	139,686
Long-term liabilities:	
Compensated absences	6,250
Total liabilities	145,936
Net Assets:	
Invested in capital assets	161,318
Restricted for:	
Security deposit	32,000
Unrestricted	15,697
Total net assets	$ 209,015

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

OAKSTONE COMMUNITY SCHOOL
FRANKLIN COUNTY, OHIO

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2007

Operating revenues:	
State foundation	$ 3,040,046
Charges for services	126,000
Other	399
Total operating revenues	3,166,445
Operating expenses:	
Salaries and wages	404,620
Fringe benefits	103,329
Purchased services	2,318,494
Materials and supplies	75,230
Depreciation and amortization	36,095
Other	53,096
Total operating expenses	2,990,864
Operating income	175,581
Non-operating revenues:	
Federal and state grants	205,910
Donations	85
Interest income	6,676
Total non-operating revenues	212,671
Change in net assets	388,252
Net assets (deficit) at beginning of year	(179,237)
Net assets at end of year	$ 209,015

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

OAKSTONE COMMUNITY SCHOOL
FRANKLIN COUNTY, OHIO

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2007

Cash flows from operating activities:		
Cash received from State foundation.	$	3,061,187
Cash received from other operations		399
Cash payments for salaries and benefits		(467,013)
Cash payments to suppliers for goods and services. . .		(2,645,523)
Cash payments for materials and supplies		(81,449)
Cash payments for other operating activities		(54,358)
Net cash used in operating activities		(186,757)
Cash flows from noncapital financing activities:		
Federal and state grants.		199,367
Donations.		85
Net cash provided by noncapital financing activities.		199,452
Cash flows from capital and related financing activities:		
Acquisition of capital assets		(53,848)
Net cash used in capital and related financing activities.		(53,848)
Cash flows from investing activities:		
Interest received		6,676
Net cash provided by investing activities		6,676
Net decrease in cash and cash equivalents.		(34,477)
Cash and cash equivalents at beginning of year. . . .		36,309
Cash and cash equivalents at end of year	$	1,832
Reconciliation of operating income to net cash used in operating activities:		
Operating income	$	175,581
Adjustments:		
Depreciation and amortization		36,095
Changes in assets and liabilities:		
Increase in prepayments		(7,332)
Increase in accounts receivable.		(126,000)
Decrease in accounts payable.		(321,761)
Increase in intergovernmental payable		42,392
Increase in accrued wages and benefits		14,692
Decrease in compensated absences payable.		(424)
Net cash used in operating activities	$	(186,757)

At June 30, 2007, the School purchased $19,213 of capital assets on account.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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 3 non-certified staff members and 8 certificated teaching personnel who provide services to 112 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, 2007.

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. Furniture and equipment are 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, 2007, are recorded as prepaid items using the consumption method. A current asset for the prepaid amounts is recorded at the time of the payment by the School and the expense is recorded when used. The School has prepaid items of $11,040 at June 30, 2007.

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, 2007, the carrying amount of the School's deposits was $1,832 and the bank balance was $22,331. 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 School.

NOTE 4 - CAPITAL ASSETS

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

	Balance at June 30, 2006	Additions	Disposals	Balance at June 30, 2007
Depreciable capital assets:				
Furniture	$ -	$ 4,500	$ -	$ 4,500
Equipment	139,143	68,561	-	207,704
Less: accumulated depreciation	(15,751)	(35,135)	-	(50,886)
Capital assets, net	$ 123,392	$ 37,926	$ -	$ 161,318

NOTE 5 - BUILDING LEASE AND SECURITY DEPOSIT

The School operations are located in space leased from the Children's Center for Developmental Enrichment (CCDE). As part of the original lease agreement from fiscal year 2005, 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 2007 required $156,000 in lease payments. The lease expired on June 30, 2007, but was renewed for fiscal year 2008 at the same rate of $156,000.

NOTE 6 - RECEIVABLES

At June 30, 2007, receivables consisted of intergovernmental receivables of $19,780 in federal grants and accounts receivable of $126,000 in charges for services. 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.

NOTE 7 - PENSION PLANS – (Continued)

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 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. 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. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The School's required contribution for pension obligations to SERS for fiscal year ended June 30, 2007 and 2006 was $10,347 and $10,051 respectively; 35.74 percent has been contributed for fiscal year 2007 and 100 percent for fiscal year 2006. $6,649 represents the unpaid contribution for fiscal year 2007 and is recorded as a liability.

B. State Teachers Retirement System of Ohio

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 or by visiting the STRS Ohio website at www.strsoh.org.

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.

NOTE 7 - PENSION PLANS – (Continued)

For the fiscal year ended June 30, 2007, 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. For fiscal years 2006 and 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for fund pension obligations to the DB Plan for the fiscal year ended June 30, 2007, 2006 and 2005 were $38,655, $31,562 and $35,330 respectively; 65.88 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. $13,189 represents the unpaid contribution for fiscal year 2007 and is recorded as a liability. Contributions to the DC and Combined Plans for fiscal year 2007 were $3,990 made by the School and $3,800 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 of Ohio (STRS Ohio), 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.

All STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. 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 Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled $2,973 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2007, the balance in the Health Care Stabilization Fund was $4.1 billion. For the fiscal year ended June 30, 2007, net health care costs paid by STRS Ohio were $265.558 million and STRS Ohio had 122,934 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.

NOTE 8 - POSTEMPLOYMENT BENEFITS – (Continued)

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, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, a decrease of .10 percent from fiscal year 2006. 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 2007, the minimum pay was established at $35,800. However, the total surcharge is capped at 2 percent of each employer's SERS salaries. For the 2007 fiscal year, the School paid $5,196 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next year. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available) were $158.751 million. At June 30, 2006 (the latest information available), SERS had net assets available for payment of health care benefits of $295.6 million. At June 30, 2006 (the latest information available), SERS had 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, 2007, the School contracted with Auto Owner Insurance Company for insurance as follows:

Insurance Type	Coverage	Deductible
Property Insurance	$ 115,000	$ 1,000
Electronic Data Processing	355,000	500
Commercial General Liability	1,000,000 Each Occurence	-
	2,000,000 Aggregate	-
Abuse	100,000 Each Occurence	-
	300,000 Each Occurence	-
Blanket Employee Dishonesty	100,000	1,000
Directors and Officers	1,000,000	2,500
Employment Practices	1,000,000	5,000

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 $3,721 for this premium on January through June 2007 wages and accrued wages. The liability is reflected in the financial statements at June 30, 2007.

NOTE 10 - EMPLOYEE BENEFITS

The School provides healthcare and dental insurance for all eligible employees through Anthem Blue Cross and Blue Shield and Principle Dental. For healthcare, the School pays 80-90% of the monthly premium for single coverage and 70% for family coverage. For dental, the School pays 80% of the monthly premium for single coverage and 70% for family coverage. The employees pay the remaining premium amount. 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, 2007, purchased services expenses were as follows:

Professional and Technical Services	$ 2,226,440
Property Services	78,105
Postage	114
Other Purchased Services	13,835
Total	$ 2,318,494

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. The School paid the Sponsor $15,515 during fiscal year 2007.

NOTE 12 - CONTRACTS - (Continued)

B. Management Contract

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 $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 2007.

C. Service Contract

The School entered into a Placement Contract with CCDE to provide for educational services to certain students 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 Contract was $2,072,197 during fiscal year 2007. The School paid $2,081,197 during fiscal year 2007, resulting in a prepaid asset of $9,000. The $9,000 was used for services provided under a new service contract for fiscal year 2008.

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, 2007.

B. Litigation

A lawsuit entitled ***Beverly Blount-Hill, et al. v. State of Ohio, et al., Case #: 3:04CV197*** was filed in the U.S. District Court, Southern District of Ohio, Western Division in October 2004. The suit alleges that the funding provisions of the Ohio Community Schools Act, Ohio Revised Code Section 3314, violate both the Ohio and Federal constitutions. If the funding scheme is determined to be unconstitutional, it could have financial ramifications for all community/charter schools. The case is still currently pending, and the effect of this suit, if any, on the School cannot be presently determined.

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 2007 review resulted in the discovery of an overpayment to the School in the amount of $21,141. This amount will be deducted from the School's foundation funding during fiscal year 2008 and is included in intergovernmental payable at June 30, 2007.

NOTE 14 – LONG TERM LIABILITIES

The School's long term liabilities consist only of compensated absences in the amount of $6,250 a decrease from the prior year amount of $6,674.

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. During fiscal year 2007 the School did not draw from the line of credit and at June 30, 2007 the School had no debt outstanding.

NOTE 15 - SUBSEQUENT EVENTS

The School entered into an Administrative Management agreement with CCDE for Administrative Services for the period July 1, 2007 through June 30, 2008 in the amount of $34,000 and entered into a service contract for the period of August 27, 2007 through June 6, 2008 in the amount of $28,000 per student.

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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 Directors:

We have audited the financial statements of Oakstone Community School, Franklin County, Ohio, (the School) as of and for the year ended June 30, 2007, which collectively comprise the School's basic financial statements and have issued our report thereon dated March 7, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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 as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the School's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School's internal control over financial reporting.

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

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

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2007-001 through 2007-003.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the School's internal control will not prevent or detect a material financial statement misstatement.

Internal Control Over Financial Reporting (Continued)

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe none of the significant deficiencies described above are material weaknesses.

We also noted certain internal control matters that we reported to the School's management in a separate letter dated March 7, 2008.

Compliance and Other Matters

As part of reasonably assuring whether the School'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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note a certain noncompliance or other matter that we reported to the School's management in a separate letter dated March 7, 2008.

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

We intend this report solely for the information and use of management, Board of Directors, and, the Delaware-Union Educational Service Center. We intend it for no one other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 7, 2008

OAKSTONE COMMUNITY SCHOOL
FRANKLIN COUNTY

SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2007

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

FINDING NUMBER 2007-001

SIGNIFICANT DEFICIENCY

Accounting System

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

The School operated two accounting systems during fiscal year 2007. 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. It was also noted that 6 checks were numbered higher than checks before them of a later date. The use of the two systems may have also contributed to the bank reconciliation problem since the Quickbooks system was reconciled back to the bank 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 use of two accounting systems was stopped in June of 2007 after a similar finding was communicated to the Board by the Auditor of State's Office in May of 2007 for the FY 2006 audit. The School has used only the MEC accounting system since July 1, 2007, and all activity has been reconciled.

FINDING NUMBER 2007-002

SIGNIFICANT DEFICIENCY

Board Monitoring

The Board of Directors should review accounting system reports to ensure financial information is recorded in an accurate, complete, and timely manner.

The Treasurer presents monthly reports to the Board, however, these reports are from a spreadsheet prepared by the Treasurer rather than printed directly from the accounting system. These reports also vary in the type of information provided to the Board from month to month.

The lack of system generated reports provided to the Board, limits the Board's ability to monitor the accurate, complete, and timely posting of financial activity to the accounting system and could lead to improper management decisions.

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

FINDING NUMBER 2007-002 (Continued)

We recommend the Treasurer present Uniform School Accounting System (USAS) generated reports to the Board. The Treasure should present the Board with reports that show the receipts, expenditures, and cash available at the end of each month for the Board to review. The Board is also presented some worksheets in excel format. Any non-system reports need to be reconciled back to the USAS system by someone on the Finance committee. All reports should be formally approved in the Board's minutes and be signed by members of the Finance Committee to document their review.

OFFICIALS RESPONSE:
The Board fully recognizes the importance of monthly monitoring of financial information. The Board requested monthly financial reports from the Treasurer at each Board meeting, but they were not always prepared and presented. After a similar recommendation was communicated to the Board by the Auditor of State's Office in May of 2007 for the FY 2006 audit, the Board continued to try and work with the Treasurer to provide reliable and timely monthly financial reports. The Treasurer was unable to do so and resigned her position with the School in November 2007.

The Board hired a new Fiscal Officer in January 2008 and she provided accounting system reports, including revenues, expenses, and fund balances for all funds, for the month of January 2008 to the Board at the February 26, 2008 meeting.

The Board is working with the new Fiscal Officer to determine the type and format of financial information we will review each month. At a minimum, in addition to the monthly bank reconciliation, this information will include a summary of revenues, expenses, and available fund balances. If we are unable to get easy to understand, useful reports from the accounting system, we will request spreadsheet summaries of that information and have the Superintendent or a Board member agree the summaries back to the accounting system data.

FINDING NUMBER 2007-003

SIGNIFICENT DEFICIENCY

Bank Reconciliations

To assure the School's cash is appropriately accounted for, a bank reconciliation, consisting of reconciling the month end bank balance with the School's month end fund balances, including identifying any reconciling items, should be completed each month and be reviewed for accuracy and completeness by someone independent of the cash receipt and expenditure process. The reconciliation should be reviewed each month, including any unusual reconciling items, by the entities Board.

Bank reconciliations were not performed throughout the year. The reconciliations were completed after year end which required several adjustments to be made to the accounting records by the School prior to compilation of the financial report.

The lack of preparing and reviewing monthly bank reconciliations could allow errors and unresolved reconciling items to go undetected and lead to errors or irregularities that are not identified in a timely manner.

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

FINDING NUMBER 2007-003 (Continued)

We recommend the Board develop procedures to ensure that monthly bank reconciliations are prepared monthly and that all reconciling items are specifically identified. The Board should formally approve the reconciliations in the minutes and the Finance Committee should sign the bank statements signifying their review.

OFFICIALS RESPONSE:
The School's new Fiscal Officer completed all fiscal year 2007 reconciliations in January 2008. The bank reconciliations for all fiscal year 2008 activity to date have also been completed. The January 2008 reconciliation was reviewed and approved by the Board at their February 26, 2008 meeting. The bank reconciliation has been made part of the monthly finance reports the Board will review and approve.

OAKSTONE COMMUNITY SCHOOL
FRANKLIN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2007

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2006-001	Accurately completing and monitoring monthly bank reconciliations.	No	Repeated as Finding 2007-003
2006-002	The School should record all financial activity in one accounting system as the activity occurs.	No	Repeated as Finding 2007-001
2006-003	Finding for Recovery-Overpayment of STRS	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
APRIL 1, 2008

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