OAKSTONE COMMUNITY SCHOOL
FRANKLIN COUNTY

REGULAR AUDIT

FOR THE PERIOD OCTOBER 4, 2004 THROUGH JUNE 30, 2005

Auditor of State
Betty Montgomery

OAKSTONE COMMUNITY SCHOOL
FRANKLIN COUNTY

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Auditor of State
Betty Montgomery

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, 2005 and for the period October 4, 2004, through June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our 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 financial position of the Oakstone Community School, Franklin County, Ohio, as of June 30, 2005, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2006, 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 the Governmental Accounting Standards Board 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.

Betty Montgomery

Betty Montgomery
Auditor of State

April 27, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD OCTOBER 4, 2004 THROUGH JUNE 30, 2005
(Unaudited)

The discussion and analysis of Oakstone Community School (the School) financial performance provides an overall review of the financial activities for the period ended June 30, 2005. Readers should also review the financial statements and notes to enhance their understanding of the School's financial performance.

Highlights

The School, a charter school, specializes in providing educational services to both typically developing children and special needs children. The School provided services to up to eighty-nine students. No comparative data is presented because the School began operations in October of 2004.

Key highlights for 2005 were as follows:

- The School had net assets of ($84,455) at June 30, 2005.
- The School's primary revenue source was school foundation. These receipts represent 93 percent of total revenue received during the year.

Using this Financial Statement

This annual report consists of a series of financial statements and notes to those statements.

The Statement of Net Assets and Statement of Revenue, Expense and Changes in Assets reflect how the School did financially during the period ended June 30, 2005. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting includes all of the current year revenue and expenses regardless of when cash is received or paid.

These statements report the School's net assets and changes in those assets. This change in net asset is important because it tells the reader whether 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. Non financial factors include the School's student enrollment, per pupil funding as determined by the State of Ohio, changes in technology, required educational programs and other factors. The School uses enterprise presentation for all of its activities.

Table 1 provides a summary of the School's net assets as of June 30, 2005:

Table 1
Net Assets

	2005
Assets:	
Current Assets	$155,762
Security Deposit	32,000
Capital Assets, net	14,325
Organizational Costs, net	4,900
Total Assets	$206,987
Liabilities:	
Current Liabilities	259,817
Long Term Liabilities	31,625
Total Liabilities	291,442
Net Assets:	
Invested in Capital Assets	14,325
Restricted	32,000
Unrestricted	(130,780)
Total Net Assets	($84,455)

The School had net assets of ($84,455) as of June 30, 2005.

Table 2 reflects the changes in net assets for the period ended June 30, 2005:

Table 2
Change in Net Assets

Operating Revenues:	
Foundation	$1,270,588
Non-Operating Revenues:	
Donations	10,600
Grants	77,452
Interest	663
Total Revenues	1,359,303
Operating Expenses:	
Salaries	214,795
Fringe Benefits	84,854
Purchases Services	1,139,161
Materials and Supplies	3,136
Depreciation and Amortization	1,222
Other	590
Total Expenses	1,443,758
Total Decrease in Net Assets	($84,455)

Foundation revenues represent 93 percent of total receipts and are the primary revenue source of the School. These revenues consist of payments from the Ohio Department of Education based on the number of full-time equivalency students. Expenses for purchased services accounted for 79 percent of the total expenses. Purchased services represent expenses made for support services, rent, professional and technical services, and for the School's establishment. Salaries and fringe benefits accounted for 20 percent of the total expenses.

Budgeting

The School is not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705.

Capital Assets and Debt Administration

<u>Capital Assets</u>
For the period ended June 30, 2005, the School invested $14,692 in a copier. Accumulated depreciation amounted to $367; therefore, the capital assets amount net of accumulated depreciation was $14,325. For additional information on capital assets, see Note 4 to the basic financial statements.

<u>Debt</u>
The School has not incurred any long-term debt.

Current Issues

The School's financial outlook over the next several years shows continued growth as enrollment is projected to increase, due to the specialized nature of the educational services provided by the School. In 2006, the School is only providing educational services to special education students. Additional funding sources are constantly being explored, prospects of securing additional funds for specialized services is promising.

Contacting the School's Financial Management

This financial report is designed to provide citizens, taxpayers, and creditors with a general overview of the School's finances. Questions concerning any of the information in this report or requests for additional information should be directed to Barbara Henry, Treasurer, Oakstone Community School at 5747 Cleveland Ave. Columbus, Ohio 43231.

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OAKSTONE COMMUNITY SCHOOL
FRANKLIN COUNTY

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2005

Assets	
Current Assets:	
Cash	$83,907
Prepaids	10,559
Intergovernmental Receivable	61,296
Total Current Assets	155,762
Noncurrent Assets:	
Security Deposit	32,000
Capital Assets, net of accumulated depreciation	14,325
Organizational Costs, net of amortization	4,900
Total Noncurrent Assets	51,225
Total Assets	206,987
Liabilities	
Current Liabilities:	
Accounts Payable	192,108
Accrued Wages and Benefits	57,561
Intergovernmental Payable	10,148
Total Current Liabilities	259,817
Long Term Liabilities:	
Compensated Absences	31,625
Total Liabilities	291,442
Net Assets	
Invested in Capital Assets	14,325
Restricted	32,000
Unrestricted	(130,780)
Total Net Assets	($84,455)

The accompanying notes to the basic financial statements are an integral part of this statement.

OAKSTONE COMMUNITY SCHOOL
FRANKLIN COUNTY

STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS FOR THE PERIOD OCTOBER 4, 2004 THROUGH JUNE 30, 2005

Operating Revenues:	
Foundation	$1,270,588
Total Operating Revenues	1,270,588
Operating Expenses:	
Salaries	214,795
Fringe Benefits	84,854
Purchased Services	1,139,161
Materials and Supplies	3,136
Depreciation and Amortization	1,222
Other	590
Total Operating Expenses	1,443,758
Operating Loss	(173,170)
Non-Operating Revenues:	
Donations	10,600
Grants	77,452
Interest	663
Total Non-Operating Revenues	88,715
Change in Net Assets	(84,455)
Net Assets - October 4, 2004	0
Net Assets - June 30, 2005	($84,455)

The accompanying notes to the basic financial statements are an integral part of this statement.

OAKSTONE COMMUNITY SCHOOL
FRANKLIN COUNTY

STATEMENT OF CASH FLOWS
FOR THE PERIOD OCTOBER 4, 2004 THROUGH JUNE 30, 2005

Increase in Cash:	
Cash Flows from Operating Activities:	
Cash Received from State of Ohio	$1,253,950
Cash Payments to Employees for Services	(160,330)
Cash Payments for Employee Benefits	(50,544)
Cash Payments for Goods and Services	(950,189)
Cash Payments for Other Operating Expenses	(590)
Net Cash Provided by Operating Activities	92,297
Cash Flows from Noncapital Financing Activities:	
Donations Received	10,600
Grants Received	32,794
Cash Payment for Security Deposit	(32,000)
Cash Payment for Organizational Costs	(5,755)
Net Cash Used for Noncapital Financing Activities	5,639
Cash Flows from Capital and Related Financing Activities:	
Acquisition of Capital Assets	(14,692)
Net Cash Used for Capital and Related Financing Activities	(14,692)
Cash Flows from Investing Activities	
Interest	663
Net Cash Provided by Investing Activities	663
Net Increase in Cash and Cash Equivalents	83,907
Cash at Beginning of Period	0
Cash at End of Period	$83,907
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities	
Operating Loss	(173,170)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Depreciation and Amortization	1,222
(Increases) Decreases in Assets:	
Intergovernmental Receivable	(16,638)
Prepaids	(10,559)
Increases (Decreases) in Liabilities:	
Accounts Payable	192,108
Accrued Wages and Benefits	57,561
Intergovernmental Payable	10,148
Compensated Absences	31,625
Total Adjustments	265,467
Net Cash Provided by Operating Activities	$92,297

The accompanying notes to the basic financial statements are an integral part of this statement.

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1. Description of the School District and Reporting Entity

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 both typically developing children and special needs children with Autism Spectrum Disorders. Specific activities in support of the school include general teaching, therapy, and socialization activities. The School is part of the State's education program, is nonsectarian in its programs, admissions policies, employment practices, and all other operations. The School may acquire facilities as needed and contract for any services necessary for the operation of the School.

The School was approved for operation under a contract with the Delaware-Union Educational Service Center (the Sponsor) for a five-year period commencing on September 20, 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 qualifications of teachers.

2. Summary of Significant Accounting Policies

The financial statements of the School have been prepared in conformity with generally accepted accounting principles as applied to 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 on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The School does not apply FASB statements issued after November 30, 1989. Following are the more significant of the School's accounting policies.

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 for its financial records. Enterprise reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

B. Measurement Focus

The enterprise activity is accounted for using a flow of economic resources measurement focus. All assets and 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.

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 School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. Expenses are recognized at the time they are incurred.

D. Budgetary

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 Chapter 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, 2005.

F. Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School maintains a capitalization threshold of one thousand dollars. 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. Improvements are capitalized. The School does not capitalize interest.

The School's capital assets during fiscal year 2005 consisted of a copier. The asset is depreciated using the straight-line method over an estimated useful life of 5 years.

G. Compensated Absences

Vacation and sick leave benefits are accrued as a liability as the benefits are earned if the employees' 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 used during the following school year. The School records a liability for employees with accumulated unused vacation and sick leave when earned.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase by the School and an expense is recorded when used. The School has prepaid items totaling $10,559.

2. Summary of Significant Accounting Policies (continued)

I. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors, or contracts. 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 generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

3. Deposits

Custodial credit risk is the risk that, in the event of a 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, 2005, the carrying amount of the School's deposits was $83,907 and the bank balance was $87,290. 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.

4. Capital Assets

Capital assets for the period ended June 30, 2005, were as follows:

Depreciable Capital Assets	
Equipment	$14,692
Less Accumulated Depreciation	(367)
Capital Assets, Net	$14,325

5. Building Lease and Security Deposit

School operations are located in space leased from the Oakstone Academy/Children's Center for Developmental Enrichment (CCDE). As part of the 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. Lease payments for fiscal year 2005 were $116,842. The lease expired on June 30, 2005, but was renewed for fiscal year 2006.

6. Receivables

At June 30, 2005, receivables consisted of intergovernmental receivables of $44,657 from the IDEA-B federal grant program and $16,639 from the results of the Ohio Department of Education's audit of the number of full-time equivalency students. The receivables are expected to be collected in full within one year.

7. Defined Benefit Pension Plans

The School contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on member contributions and earned interest matched by STRS funds multiplied by an actuarially determined annuity factor. The DCP allows members to place all of 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 fifty and termination of employment.

The CP offers features of both the DBP and DCP. In the CP, 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 DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP. 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 balance from the existing DBP into the DCP or CP. This option expired on December 31, 2001.

A DBP or CP member with five or more years of 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 DCP 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, 2005, plan members were required to contribute 10 percent of their annual covered salary and the School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The School required contribution for pension obligations for the DBP for the period ended June 30, 2005 was $35,330; 78 percent has been contributed. As of June 30, 2005, the School's cumulative liability to STRS Ohio was $7,623.

8. Post-Employment Benefits

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired classified 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 obligation to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

All STRS Ohio benefit recipients and sponsored 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. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, 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 $1,603.

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

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, 2005, 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 no deductible.

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 $1,255 for this premium. The liability is reflected in the financial statements at June 30, 2005.

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 60% of the monthly premium and employees pay the remaining 40%. The School provides life insurance and accidental death and dismemberment insurance to employees through Anthem Blue Cross and Blue Shield.

11. Purchased Services

Purchased services for the period ended June 30, 2005, were as follows:

Oakstone Academy/ Children's Center for Developmental Enrichment	$991,368
Rent	116,842
Professional and Technical Services	13,583
Service Agreement	17,368
Total	$1,139,161

12. 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.

During the period ended June 30, 2005, the School paid the Sponsor $8,000 for expenses incurred for its establishment and $9,354 from funding provided by ODE pursuant to Ohio Rev. Code Section 3314.08. The School paid 100% related to the provision of this contract as of June 30, 2005.

13. Contingencies

A. Grants

The School received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the School. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2005.

13. Contingencies (continued)

B. Litigation

A suit was filed in Franklin County Common Pleas Court, on May 14, 2001, alleging that Ohio's Community (i.e., Charter) School's Program violates the State's Constitution and State laws. On April 21, 2003, the court dismissed the counts containing constitutional claims and stayed the other courts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed and the case was heard on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public education system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral argument occurred November 29, 2005. The effect of this suit, if any, on the School is not presently determinable.

C. Ohio Department of Education Enrollment Review

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the School. These reviews are conducted to ensure the School is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The review for the period ended June 30, 2005 resulted in an underpayment of $16,639. This amount is reflected as intergovernmental receivable on the Statement of Net Assets.

14. Subsequent Events

The School entered into a lease with CCDE for the period July 1, 2005 through June 30, 2006. Lease payments due under this agreement are $156,000. The security deposit from the initial lease was carried over to the new lease.

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.

15. Tax Exempt Status

The School completed its application and filed for tax exempt status under 501(c) 3 of the Internal Revenue Code and was approved for tax exempt status on May 10, 2005. 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.

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Auditor of State
Betty Montgomery

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 Avenue
Columbus, Ohio 43231-2831

To the Board of Trustees:

We have audited the accompanying basic financial statements of Oakstone Community School, Franklin County, Ohio (the School) as of June 30, 2005 and for the period October 4, 2004 through June 30, 2005, and have issued our report thereon dated April 27, 2006. 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 in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statement we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School's management dated April 27, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

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 an instance of noncompliance or other matter that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2005-001. In a separate letter to the School's management dated April 27, 2006, we reported a matter related to noncompliance we deemed immaterial.

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

Betty Montgomery

Betty Montgomery
Auditor of State

April 27, 2006

SCHEDULE OF FINDINGS
JUNE 30, 2005

1. FINDING RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2005-001

The School contracts with Oakstone Academy/Children's Center for Developmental Enrichment (CCDE) for facilities and education services. CCDE submits monthly invoices to the School for services provided.

Prior to the School formally beginning operations, the School's employees were employed by CCDE and CCDE was responsible for benefits. After beginning operations in October, 2004, the School contracted with Principle Dental for dental insurance benefits for School employees for the period December 2004 through June 2005 and remitted employee and Board premiums to Principal Dental each month.

The invoices from CCDE to the School for December 2004, January 2005, and February 2005, included $317 in dental insurance premiums for the School's employees. The School paid these invoices with checks #5225, #5258, and #5534. The School, therefore, paid for dental insurance benefits for employees to both Principle Dental and CCDE, resulting in an overpayment of employee dental insurance benefits in the amount of $317.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against Barb Henry, Treasurer, and CCDE, jointly and severally in the amount of $317 and in favor of the School.

CCDE reimbursed the School $317 on May 10, 2006.

Client's Response*:*

Oakstone Community School began operations in October 2004. The first payroll for the School was December 31, 2004. The checks were written by the School to CCDE to cover the health benefits. The health benefits include dental.

The School initiated electronic payments for dental insurance premiums in April. The insurance company was electronically paid for benefits already paid to CCDE by the School.

The overpayment of $316.94 has been repaid to the School by CCDE.

The HR Director and the Treasurer have reviewed the insurances payments to vendors for FY 05 and FY 06. Adjustments will be made in FY 06 to reconcile any discrepancies.

Further, the payroll report, used by the Treasurer, will be adjusted to indicate the amounts paid to all vendors electronically as well as by check.

Auditor of State
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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 13, 2006