THE MONTESSORI RENAISSANCE EXPERIENCE
FRANKLIN COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2004

Auditor of State
Betty Montgomery

THE MONTESSORI RENAISSANCE EXPERIENCE
FRANKLIN COUNTY

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

The Montessori Renaissance Experience
Franklin County
1576 Loretta Avenue
Columbus, Ohio 43211

To the Board of Governors:

We have audited the accompanying basic financial statements of The Montessori Renaissance Experience, Franklin County, Ohio, (the School), as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express 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 Montessori Renaissance Experience, Franklin County, Ohio, as of June 30, 2004, 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.

The School is experiencing certain financial difficulties. Those difficulties and management's plan are discussed in Note 17.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2005, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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 29, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Our discussion and analysis of the Montessori Renaissance Experience School's (School's) financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the School's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

- In total, net assets decreased $77,724 which represents a 153.2% decrease from 2003. This decrease was due to a loss of the federal startup funding, an increase in staffing levels and benefits, as well as purchased services.

- Total assets decreased $41,413, which is due to the increase in expenses for additional school personnel.

- Total liabilities increased $36,311, which is due to additional accounts payable, additional accrued wages and benefits for the addition of two personnel over the previous year.

Using this Financial Report

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows.

One of the most important questions asked about the School's finances is, "Is the School better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the School as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the School's net assets and changes in them. The change in net assets provides the reader a tool to assist in determining whether the School's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as state revenue, student enrollment growth, and facility conditions in arriving at their conclusion regarding the overall health of the School.

THE MONTESSORI RENAISSANCE EXPERIENCE
FRANKLIN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)

A comparative analysis of fiscal year 2004 and 2003 follows:

Net Assets

	2004	2003
Current Assets	$ 27,346	$ 69,959
Capital Assets, Net	7,942	6,472
Total Assets	35,288	76,701
Current Liabilities	57,543	24,483
Long Term Liabilities	4,751	1,500
Total Liabilities	62,294	25,983
Net Assets:		
Invested in Capital Assets,	7,942	6,742
Unrestricted	(34,948)	43,976
Total Net Assets	($27,006)	$ 50,718

The positive portion of the School's net assets reflects its investment in capital assets. The School uses capital assets to provide services; consequently, these assets are not available for future spending.

Net Assets of the School have decreased $77,724 and unrestricted net assets reflect a negative balance of $34,948. The decrease in net assets is primarily the result of increased staffing and related benefits. The increase in staffing requirements and related benefits added to the increased liabilities, and the decrease in current assets.

Changes in Net Assets

	2004	2003
Operating Revenues:		
Sales	$ 4,228	$ 0
Foundation payments	366,989	195,970
Disadvantaged Pupil Impact Aid	46,440	45,529
Tuition	8,743	0
Other Operating Revenues	7,964	3,513
Non-Operating Revenues:		
Investment Earnings	83	335
State restricted grants	12,702	4,675
Federal restricted grants	44,095	172,265
Total Revenues	491,244	422,287
Operating Expenses:		
Salaries & Wages	259,925	173,038
Fringe Benefits	69,945	40,225
Purchased Services	197,575	162,768
Materials & Supplies	18,787	13,309
Depreciation	4,250	2,070
Miscellaneous	18,486	21,053
Total Expenses	568,968	412,463
Change in Net Assets	($ 77,724)	$ 9,824

The School's operating revenues increased in every area. The growth is primarily due to increased enrollment over the prior school year and the opening of the day care operation, Montessori Too. Similarly, the expenses for salaries and fringes increased as a result of having more staff members to serve the increased number of students. The decrease in federal non-operating revenues is due to the expiration of the federal charter school startup grant in the amount of $150,000.

Capital Assets

The School has $7,942 invested in capital assets net of depreciation. There is an increase of $5,450 to the School's capital assets for the 2004 fiscal year. This increase is for a security system. Detailed information regarding capital asset activity is included in the notes to the basic financial statements (Note 5).

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

	2004	2003
Furniture, Fixtures and Equipment, Net	$ 7,942	$ 6,742

Current Financial Issues

The future financial stability of the School is not without challenges.

For fiscal year 2004, the School had an unrestricted deficit ($34,948), operating loss ($134,604), and a net loss ($77,724). Projected revenues for fiscal year 2005 indicate these fiscal year difficulties will not be eliminated during fiscal year 2005. It is school's plan to seek alternative funding sources and to decrease expenses.

The first challenge is the state economy. The School does not receive any funds from taxes. The primary source of funding is the state foundation program. An economic slowdown in the state could result in budgetary cuts to education, which would have a negative impact on the School.

The second challenge facing the School is the future of state funding. On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the state's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...". The School is unable to determine what effect, if any, this decision will have on future funding from the State and on its financial operations.

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

Contacting the School's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District'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 Mr. Bill Lauderman, Treasurer, Ohio Community Schools Services, 6110 Enterprise Parkway, Grove City, Ohio 43123.

THE MONTESSORI RENAISSANCE EXPERIENCE
FRANKLIN COUNTY

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2004

Assets	
Current Assets	
Cash and Cash Equivalents	$0
Prepaid Asset	1,476
Accounts Receivable	1,896
Intergovernmental Receivable	23,974
Total Current Assets	27,346
Non-Current Assets	
Depreciable Capital Assets (Net of Accumulated Depreciation)	7,942
Total Assets	$ 35,288
Liabilities	
Current Liabilities	
Accounts Payable	$ 10,956
Accrued Wages & Benefits	36,641
Intergovernmental Payable	9,946
Total Current Liabilities	57,543
Noncurrent Liabilities	
Compensated Absences	4,751
Total Liabilities	62,294
Net Assets	
Invested in Capital Assets	7,942
Unrestricted (Deficit)	(34,948)
Total Net Assets	$ (27,006)

The accompanying notes are an integral part of the financial statements

THE MONTESSORI RENAISSANCE EXPERIENCE
FRANKLIN COUNTY

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

Operating Revenues	
Sales	$ 4,228
Foundation Payments	366,989
Disadvantaged Pupil Impact Aid	46,440
Tuition	8,743
Other Operating Revenues	7,964
Total Operating Revenues	434,364
Operating Expenses	
Salaries & Wages	259,925
Fringe Benefits	69,945
Purchased Services	197,575
Materials & Supplies	18,787
Depreciation	4,250
Miscellaneous	18,486
Total Operating Expenses	568,968
Operating (loss)	(134,604)
Non-Operating Revenues	
Interest Earnings	83
State Restricted Grants	12,702
Federal Restricted Grants	44,095
Total Non-Operating Revenues	56,880
Net (loss)	(77,724)
Net Assets Beginning of Year	50,718
Net Assets End of Year	$ (27,006)

The accompanying notes are an integral part of the financial statements

THE MONTESSORI RENAISSANCE EXPERIENCE
FRANKLIN COUNTY

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

Cash Flows from Operating Activities	
Cash received from sales	$ 4,228
Cash received from Foundation Payments	357,419
Cash received from Disadvantaged Pupil Impact Aid	46,440
Cash received from Tuition	8,743
Cash received from Other Operating Revenues	6,068
Cash payments for personal services	(297,142)
Cash payments for contract services	(195,737)
Cash payments for supplies and materials	(18,658)
Cash payments for Miscellaneous	(18,346)
Net Cash (Used for) Operating Activities	(106,985)
Cash Flows from Noncapital Financing Activities	
Cash from Federal & State Subsidies	48,865
Net Cash from Noncapital Financing Activites	48,865
Cash Flows from Capital and Related Financing Activities	
Payments for Capital Acquisitions	(5,450)
Net Cash Used for Capital and Related Financing Activities	(5,450)
Cash Flows from Investing Activities	
Interest on cash and cash equivalents	83
Net cash from investing activites	83
Net decrease in cash and cash equivalents :	(63,487)
Cash and cash equivalents at beginning of year	63,487
Cash and cash equivalents at end of year	$0
Reconciliation of Operating loss to Net Cash (Used for) Operating Activities	
Operating (loss)	(134,604)
Adjustments to Reconcile Operating loss to Net Cash Provided by (Used for) Operating Activities	
Depreciation	4,250
Changes in Assets and Liabilities:	
Increase in Accounts Receivable	(1,896)
Increase in Prepaid Assets	(1,476)
Increase in Intergovernmental Receivable	(9,570)
Increase in Accounts Payable	5,771
Increase in Accrued Wages and Benefits	17,343
Increase in Intergovernmental Payable	9,946
Increase in Compensated Absences	3,251
Total Adjustments	27,619
Net cash (used) by operating activities	$ (106,985)

The accompanying notes are an integral part of the financial statements

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

1. DESCRIPTION OF THE SCHOOL

Montessori Renaissance Experience, Inc. (the School) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in kindergarten through fifth grade. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admissions 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 for operation under contract with the Ohio Department of Education (the Sponsor) for a period of five years commencing August 26, 2001. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The School operates under the direction of a four member Board of Governors. The Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board of Governors control the School's instructional/support facility staffed by 4 non-certified and 4 certificated full time teaching personnel who provide services to 68 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. 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 more significant of the School's 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.

Enterprise accounting is used to track and report the School's financial activities. Enterprise accounting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Enterprise accounting may be used to document any activity for which a fee is charged to external users for goods or services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the 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.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is used for reporting purposes. Revenues are recognized when earned and expenses are recognized when they are incurred.

C. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor does not prescribe a budgetary process for the School.

D. Cash and Cash Equivalents

All monies received by the School are maintained in a demand deposit account. For internal accounting control purposes, the School segregates its cash. Individual fund integrity is maintained through School records and the Uniform School Accounting System (USAS). Total cash for all funds is presented as "Cash and cash equivalents" on the accompanying Statement of Net Assets.

E. 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 values as of the dates received. The School maintains a capitalization threshold of five hundred dollars. The School does not possess any infrastructure. Improvements are capitalized, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Depreciation of furniture and equipment is computed using the straight line method over the estimated useful life of three to seven years. Improvements to capital assets are depreciated over the remaining useful life of the related capital assets.

F. Intergovernmental Revenues

The School currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid (DPIA) Program. Revenues received from these programs are recognized as operating revenues in the accounting period they are earned and become measurable.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditures requirements, in which the resources are provided to the School on a reimbursement basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Intergovernmental Revenues (Continued)

Amounts awarded under the above named programs for 2004 school year totaled $470,226.

G. 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.

H. Compensated Absences

The criteria for sick leave and personnel leave is derived from board approved policies. All employees are at will employees. Salaried employees accrue sick time of 15 days per calendar year and are awarded 3 personal days at the beginning of the school year. Hourly rate employees do not accrue leave and are paid based upon hours worked only. Unused personal leave expires at the end of each school year.

Sick leave may be accumulated up to 120 days. At the end of the school year, an employee may choose to cash in sick leave in an amount not to exceed 15 days at 50% of their daily rate for any balance greater than 8 sick days.

The School records a liability for sick leave benefits using the vesting method. The entire amount of compensated absences is reported as a long term liability.

I. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either 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 no restricted assets for FY04.

J. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the School. For the School, these revenues are operating grants, sales for food service, and Tuition. 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. Prepaid Items

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

3. DEPOSITS

Deposits: At June 30, 2004, the carrying value of the School's deposits totaled ($4,937), and the bank balance totaled $3,410. Of the bank balance, $3,410 was covered by federal depository insurance. Due to the deficit cash balance, Cash and Cash Equivalents are reflected as $0 with the negative carrying value reflected as liabilities within the financial statements. The School has no investments at year end.

4. RECEIVABLES

Receivables at June 30, 2004, consisted of accounts receivable of $1,896 intergovernmental receivables (federal grants) of $14,404, and foundation payments still due for 2004 school year of $9,570. All intergovernmental receivables are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Balance June 30, 2003	Additions	Deletions	Balance June 30, 2004
Equipment	$10,344	$5,450	$0	$15,794
Less Accumulated Depreciation	(3,602)	(4,250)	0	(7,852)
Depreciable Capital Assets, Net	$6,742	$1,200	$0	$7,942

6. RISK MANAGEMENT

A. Property and Liability

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School maintains insurance coverage for rental/theft, general liability and directors and officers.

B. Worker's Compensation

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

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to School Employees Retirement System, 300 East Broad Street, Suite 100 Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

7. DEFINED BENEFIT PENSION PLANS (Continued)

A. School Employees Retirement System (Continued)

Plan members and the School are required to contribute 10 percent and 14 percent respectively, of their annual covered salary. The contribution rates are not determined actuarially, but are established by SERS's Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The School's required contribution for pension obligations to SERS for the years ending June 30, 2004, 2003 and 2002 were $15,212, $5,420 and $1,746 respectively. $1,680 representing the unpaid contribution for fiscal year 2004, is recorded as a liability within the Intergovernmental Payable on the financial statements.

B. State Teachers Retirement System

The School contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution, or other agency controlled, managed and supported in whole or in part, by the state or any political subdivision thereof. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090 or by visiting the STRS Ohio website at www.strsoh.org.

Plan Options - New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally in a biweekly basis. 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. Benefits are established by Chapter 3307 of the Ohio Revised Code.

DB Plan Benefits - Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%.

7. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Oho funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits - Plan benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. 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.

Combined Plan Benefits - Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio's public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the lapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

Benefits are increased annually by 3% of the original base amount for Defined Benefit Plan participants.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law health care benefits are not guaranteed.

7. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

A Defined Benefit 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 members who die before retirement may qualify for survivor benefits. A death benefit of $1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to $2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Plan members are required to contribute 10% of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14% of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 13% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The School's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were $21,836, $13,558, and $6,261, respectively. $3,118 representing the unpaid contribution for fiscal year 2004, is recorded as a liability within the Intergovernmental Payable on the financial statements.

8. POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. The Revised Code grants authority to STRS to provide health care coverage to eligible benefit recipients, spouses, and dependents. By Ohio law, health care benefits are not guaranteed and the cost shall be included in the employer contribution rate, currently 14% of covered payroll.

The State Teachers Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal years ended June 30, 2004, and June 30, 2003, the board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the School, this amount equaled $1,679 during fiscal 2004. The balance in the Health Care Stabilization Fund was $3.1 billion on June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS Ohio were $268,739,000. There were 111,853 eligible benefit participants.

Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

8. POSTEMPLOYMENT BENEFITS (Continued)

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2004, the health care allocation is 4.91%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between the minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at $24,500. This surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004, were $220,443,805 and the target level was $335.2 million. At June 30, 2004, the Retirement Systems' net assets available for payment of health care benefits were $300.8 million. The number of benefit recipients currently receiving health care benefits is approximately 62,000. For the School, the amount to fund health care benefits, including surcharge, equaled $5,717 during the 2004 fiscal year.

9. INSURANCE BENEFITS

The School has contracted with a private carrier to provide employee health insurance. The School paid 60% of the monthly premium for fiscal year 2004, the total monthly premium ranged from $953.75 for family coverage to $288 for single coverage. Dental insurance is not provided.

10. OPERATING LEASE

The School entered into a cancelable operating lease agreement with the Church of God for classroom space and other space in a building. The term of the lease ended August 1, 2004. The total lease payments made in fiscal year 2004 were $40,400. The School entered into a new lease with Catholic Dioceses of Columbus on August 1, 2004 through July 31, 2006. This lease for classroom facilities is payable in monthly installments of $1,125 a month.

11. LONG-TERM OBLIGATIONS

Changes in the School's long-term obligations during fiscal year 2004 were as follows:

	Balance at 7/1/03	Additions	Reductions	Balance at 06/30/04	Due in More Than One Year
Compensated absences	$ 1,500	$ 3,251	$ -	$ 4,751	$ 4,751

12. STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "…the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient…" The School is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall position of the School at June 30, 2004.

B. Litigation

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

14. RELATED PARTY TRANSACTIONS

Andre Frazier was hired as a private contractor in fiscal year 2003 to provide maintenance and repair services to the building in order for the school to open. Mr. Frazier is the husband of Board President and Chief Executive Officer (CEO) Cynthia Frazier. Total compensation paid during fiscal year 2004 was $4,375 which was from the fiscal year 2003 contract.

Sornatha Fulford was hired for consulting services at the School for the period July 1, 2003 through June 30, 2004, and she was named as the School's Development Director. Ms. Fulford is also a member of the Governing Board. Total compensation paid during fiscal year 2004 was $15,898.

15. FULLTIME EQUIVALENCY

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 fiscal year 2004 review resulted in the discovery of an underpayment to the School in the amount of $9,570. This amount has been reflected as an intergovernmental receivable on the statement of net assets and will be received during fiscal year 2005.

16. PURCHASED SERVICES

For the period July 1, 2003 through June 30, 2004, purchased service expenses were for the following services:

Type	Amount
Professional Fees	$82,707
Professional Development	5,250
Repairs/Cleaning and Maintenance	29,988
Utilities	5,549
Travel/Meeting Expense/Conference fees	2,974
Rent/Equipment Rental	40,411
Advertising/Printing/Reproduction	4,151
Security	302
Postage	339
Contracted Food Service/Contract Labor	25,904
Total	**$197,575**

17. OPERATING LOSS

For fiscal year 2004, the School had an unrestricted deficit ($34,948), operating loss ($134,604), and a net loss ($77,724). Projected revenues for fiscal year 2005 indicate these fiscal year difficulties will not be eliminated during fiscal year 2005. It is management's plan to seek alternative funding sources and to decrease expenses, although nothing specific has been planned.

18. TAX EXEMPT STATUS

The School was approved under § 501(c)(3) of the Internal Revenue Code as a tax exempt organization on August 26, 2001. Management is not aware of any course of action or series of events that might adversely affect the School's tax exempt status.

19. SUBSEQUENT EVENTS

The School on November 5, 2004 entered into an agreement to approve a line of credit not to exceed $20,000. This note is required to be paid on November 30, 2005. The School has borrowed $8,200 to date to meet operating costs. The School has made no principal payments on the loan to date, but has paid the related interest. Additionally, the School and the original sponsor Ohio Department of Education approved Buckeye Community Hope Foundation as the School's new sponsor beginning July 1, 2005.

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*

The Montessori Renaissance Experience
Franklin County
1576 Loretta Avenue
Columbus, Ohio 43211

To the Board of Governors:

We have audited the basic financial statements of The Montessori Renaissance Experience, Franklin County, Ohio, (the School), as of and for the year ended June 30, 2004, and have issued our report thereon dated April 29, 2005, wherein we noted the School was experiencing certain financial difficulties. 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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2004-001, 2004-002 and 2004-003.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable conditions described above are material weaknesses. In a separate letter to the School's management dated April 29, 2005, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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COMPLIANCE AND OTHER MATTERS

As part of reasonably assuring whether the 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 matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2004-003. In a separate letter to the School's management dated April 29, 2005, we reported other matters related to noncompliance we deemed immaterial.

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

Betty Montgomery

Betty Montgomery
Auditor of State

April 29, 2005

SCHEDULE OF FINDINGS
JUNE 30, 2004

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

Finding Number	2004-001

Cash Collection Procedures and Policies - Reportable Condition

The School maintains duplicate receipt books which contained pre-numbered receipts. However, the School did not complete duplicate receipts for all cash collections made throughout the year. In addition, duplicate receipts were issued out of sequence. The School currently does not consistently match the duplicate receipts issued to cash collections deposited and recorded in the accounting records. The School has not issued any formal policies governing the cash collections made by School personnel.

Failure to maintain duplicate pre-numbered receipts and to match these receipts to posting in the accounting records could result in misappropriation of cash collections made by School personnel.

We recommend the School issue a formal policy to govern the cash collections made by School personnel that would provide some assurance over completeness and accuracy of cash receipts. This policy, at a minimum, should include procedures whereby all funds collected are issued duplicate pre-numbered receipts. These receipts should then be match to the related deposit and entry into the accounting records. We also recommend that management develop procedures to monitor compliance with the above policy on cash collections.

Finding Number	2004-002

Unaccounted Checks- Reportable Condition

At June 30, 2004, there were 101 checks missing and unaccounted for by the School. The School issued checks out of numerical sequence, which partially caused the School to be unable to account for these missing checks. The School did not issue stop payments on these missing checks due to its own cost benefit analysis. These checks did not clear the School's financial institution per review of the canceled checks processed. The School Treasurer has obtained a new supply of checks with the check sequence different from the previous sequence of checks.

The School should maintain all checks including cancelled, unused, and voided checks. Failure to maintain and account for all checks could result in unauthorized purchases and/or misappropriation of assets.

We recommend that the School take the necessary steps to ensure the completeness of all checks. The School should implement policies and procedures which include monitoring checks and balances to ensure that all checks are accounted for on a monthly basis. We also recommend that the School take the appropriate steps to ensure the physical safeguarding of the unused check supply.

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

Finding Number	**2004-003**

Finding for Recovery-Repaid Under Audit/ Reportable Condition- Latchkey Receipts

Ohio Rev. Code Section 9.39 states in part that all "public officials are liable for all public money received or collected by them or by their subordinates under color of office".

Beginning in fiscal year 2004, the School operated an after-school latchkey program to supervise students before and after the school day while their parents or legal guardians were at work. The School currently does not have a formal policy governing the fee and the related cash collections procedures for the latchkey program. However, according to School practice, this program was to be paid for by funds collected from the attendee's parents or legal guardians. The cost of this program was to be $45 per student per week. The only exception to this fee was that if there was a sibling to the first student then the fee for the second student was $35 per week. The School utilized a duplicate pre-numbered receipt book and issued receipts for some collections received from the parents or legal guardians. These receipts issued were completed by the teacher in charge of the program, and/or the School's secretary. However, duplicate receipts were not always issued for these collections, receipts were issued out of sequence, and collections were not always posted to the School's accounting records.

From the documentation that was maintained by the School, there was indication that cash collections received were not deposited or recorded for this program. The latchkey duplicate receipt book indicated that a total of $3,734 in cash collections was received during the School year ended June 30, 2004. However, per the School's accounting records only $2,999.50 was recorded and deposited with the School's financial institution. On October 25, 2004, the Chief Executive Officer, Cynthia Frazier, notified the Auditor of State's office of a sealed envelope of funds located within a file drawer at the School. The sealed envelope was opened in front of an Auditor of State employee and contained cash collections received during the months of May and June 2004. This envelope contained $830.35 of which $378 was identified as cash collections received for the Latchkey program. The net effect of cash collected per the duplicate receipt books and cash received and deposited resulted in the School receiving $356.50 in cash collections that were not deposited with the School's financial institution.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code 117.28, a Finding for Recovery for public money collected but not accounted for is hereby issued against Maria Edwards, School Secretary, Rayona Spencer and Elisha Lee, School Teachers, Cynthia Frazier, Chief Executive Officer, Brian G. Adams, former treasurer, and the Ohio Farmers Insurance Company, Mr. Adams' bonding company, jointly and severally, in the amount of $356.50 and in favor of the operating fund.

We recommend that the School establish a formal fee schedule and policy to govern the cash collections process within the Latchkey program. Additionally, the School should implement within the Latchkey program the procedures recommended in Finding Number 2004-001.

On June 30, 2005, the finding was repaid by the Chief Executive Officer, Cynthia Frazier, in the amount of $356.50.

Auditor of State
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MONTESSORI RENAISSANCE EXPERIENCE

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
JULY 12, 2005