THE MONTESSORI RENAISSANCE EXPERIENCE
FRANKLIN COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30,2005

Auditor of State
Betty Montgomery

Mary Taylor, CPA
Auditor of State

February 21, 2007

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 8, 2007. Thus, I am certifying this audit report for release under the signature of my predecessor.

Mary Taylor

MARY TAYLOR, CPA
Auditor of State

88 E. Broad St. / Fifth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us

This Page is Intentionally Left Blank.

THE MONTESSORI RENAISSANCE EXPERIENCE
FRANKLIN COUNTY

TABLE OF CONTENTS

THIS PAGE INTENTIONALLY LEFT BLANK

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, 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 Montessori Renaissance Experience, Franklin County, Ohio, as of June 30, 2005, 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.

As described in Note 4 during year ended June 30, 2005, the School restated July 1, 2004 net assets due to adopting a new sick leave policy. Furthermore, the School is experiencing certain financial difficulties. Those difficulties and management's plan are discussed in Note 17.

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

The Auditor of State has billed the School for the audit services provided for fiscal year 2005. As of December 9, 2006, the School had been billed a total of $12,080 and had yet to pay $12,080, which is included in intergovernmental payable.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 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.

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

Betty Montgomery

Betty Montgomery
Auditor of State

December 29, 2006

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

Our discussion and analysis of the Montessori Renaissance Experience School's (the School) financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2005. 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 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 $80,670 which represents a 262.4% decrease from 2004. This decrease was due to lower than expected enrollment, an increase in staffing levels and benefits, as well as purchased services.

- Total assets decreased $19,751, which is due to the increase in expenses for additional school personnel.

- Total liabilities increased $60,919, which is due to additional accrued wages and benefits for additional personnel, additional note payable, and additional intergovernmental payable related to the inability of the School to pay its bills on time.

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.

A comparative analysis of fiscal year 2005 and 2004 follows:

Net Assets

	2005	2004
Current Assets	$ 10,754	$ 27,336
Capital Assets, Net	4,783	7,942
Total Assets	15,537	35,288
Current Liabilities	118,462	57,543
Total Liabilities	118,462	57,543
Net Assets:		
Invested in Capital Assets,	4,783	7,942
Unrestricted	(107,708)	(31,197)
Total Net Assets (restated)	($102,925)	($ 22,255)

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 $80,670 and net assets reflect a negative balance of $102,925. 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

	2005	2004
Operating Revenues:		
Sales	$ 13,513	$ 4,228
Foundation payments	380,500	366,989
Disadvantaged Pupil Impact Aid	76,628	46,440
Tuition	675	8,743
Other Operating Revenues	8,338	7,964
Non-Operating Revenues:		
Investment Earnings	0	83
State restricted grants	6,834	12,702
Federal restricted grants	59,388	44,095
Total Revenues	545,876	491,244
Operating Expenses:		
Salaries & Fringe Benefits	440,861	325,119
Purchased Services	162,519	197,575
Materials & Supplies	8,477	18,787
Depreciation	3,159	4,250
Miscellaneous	11,377	18,486
Non-Operating Expenses:		
Interest and Fiscal Charges	153	0
Total Expenses	626,546	564,217
Change in Net Assets	($ 80,670)	($ 72,973)

The School's operating revenues increased in every area except for Tuition due to the closing of the Renaissance Too Child Care program. The growth is primarily due to increases in foundation, federal grants, and disadvantaged pupil impact aid monies. Similarly, the expenses for salaries and benefits increased as a result of having more staff members.

Capital Assets

The School has $4,783 invested in capital assets net of depreciation. There were no additions or deletions for the 2005 fiscal year. Detailed information regarding capital asset activity is included in the notes to the basic financial statements (Note 6).

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

	2005	2004
Furniture, Fixtures and Equipment, Net	$ 4,783	$ 7,942

Current Financial Issues

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

For fiscal year 2005, the School had an operating loss of ($146,739), and a net loss ($80,670), and an unrestricted deficit ($107,708). Projected revenues for fiscal year 2006 indicate these fiscal year difficulties will not be eliminated during fiscal year 2006. It is the 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. A suit was filed in the United States District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The case is still pending. The effect of this suit, if any, on the 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. Thomas M. Schaefer, Treasurer, Montessori Renaissance Experience, 1567 Loretta Avenue, Columbus, Ohio, 43211.

MONTESSORI RENAISSANCE EXPERIENCE
FRANKLIN COUNTY

STATEMENT OF NET ASSETS
JUNE 30, 2005

Assets		
Current Assets		
Cash and Cash Equivalent	$	-
Prepaid Asset		980
Intergovernmental Receivable		9,774
Total Current Assets		10,754
Non-Current Assets		
Depreciable Capital Assets (Net of Accumulated Depreciation)		4,783
Total Assets	$	15,537
Liabilities		
Current Liabilities		
Accounts Payable	$	5,229
Accrued Wages & Benefits		36,730
Pension Obligation Payable		14,286
Note Payable		24,700
Intergovernmental Payable		37,517
Total Current Liabilities		118,462
Net Assets		
Invested in Capital Assets		4,783
Unrestricted (Deficit)	$	(107,708)
Total Net Assets	$	(102,925)

The accompanying notes are an integral part of the financial statements

MONTESSORI RENAISSANCE EXPERIENCE
FRANKLIN COUNTY

STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Operating Revenues	
Sales	$ 13,513
Foundation Payments	380,500
Disadvantaged Pupil Impact Aid	76,628
Tuition	675
Other Operating Revenues	8,338
Total Operating Revenues	479,654
Operating Expenses	
Salaries & Benefits	440,861
Purchased Services	162,519
Materials & Supplies	8,477
Depreciation	3,159
Miscellaneous	11,377
Total Operating Expenses	626,393
Operating Loss	(146,739)
Non-Operating Revenues/Expenses	
Interest and Fiscal Charges	(153)
State Restricted Grants	6,834
Federal Restricted Grants	59,388
Total Non-Operating Revenues	66,069
Net Loss	(80,670)
Net Assets Beginning of Year (Restated See Note 4)	(22,255)
Net Assets End of Year	$ (102,925)

The accompanying notes are an integral part of the financial statements

MONTESSORI RENAISSANCE EXPERIENCE
FRANKLIN COUNTY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Cash Flows from Operating Activities	
Cash received from sales	$ 13,453
Cash received from Foundation Payments	417,143
Cash received from Disadvantaged Pupil Impact Aid	76,628
Cash received from Tuition	675
Cash received from Other Operating Revenues	8,368
Cash payments for personal services	(395,458)
Cash payments for contract services	(172,878)
Cash payments for supplies and materials	(8,477)
Cash payments for Miscellaneous	(11,377)
Net Cash Used for Operating Activities	(71,923)
Cash Flows from Noncapital Financing Activities	
Cash from Federal & State Subsidies	45,675
Cash received from Loans	32,902
Cash payment fo Debt principal and interest	(6,654)
Net Cash from Noncapital Financing Activities	71,923
Net decrease in cash and cash equivalents :	-
Cash and cash equivalents at beginning of year	-
Cash and cash equivalents at end of year	-
Reconciliation of Operating loss to Net Cash Used for Operating Activities	
Operating Loss	(146,739)
Adjustments to Reconcile Operating loss to Net Cash Used for Operating Activities	
Depreciation	3,159
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	1,896
Decreaase in Prepaid Assets	496
Decrease in Intergovernmental Receivable	8,237
Decrease in Accounts Payable	(5,727)
Increase in Accrued Wages and Benefits Payable	89
Increase in Pension Obligation Payable	14,395
Increase in Intergovernmental Payable	27,571
Increase in Notes Payable	24,700
Decrease in Compensated Absences	-
Total Adjustments	74,816
Net cash used for by operating activities	$ (71,923)

The accompanying notes are an integral part of the financial statements

THIS PAGE INTENTIONALLY LEFT BLANK

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 7 certificated full time teaching personnel who provide services to 71 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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).

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.

Amounts awarded under the above named programs for 2005 school year totaled $523,350.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. 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 FY05.

I. 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 foundation payments, disadvantaged pupil impact aid, sales for food service, tuition, and other revenue. 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.

J. 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 and an expense is reported in the year in which services are consumed.

3. DEPOSITS

Deposits: At June 30, 2005, the carrying value of the School's deposits totaled ($11,638), and the bank balance totaled $7,992. Of the bank balance, $7,992 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. CHANGES IN ACCOUNTING PRINCIPLES AND SCHOOL SICK LEAVE POLICY

For year ended 2005, the School implemented Governmental Accounting Standards Board (GASB) Statement Number 40, "Deposits and Investment Risk Disclosure". GASB Number 40 establishes and modifies the disclosure requirements related to investment risks. The implementation of this statement did not result in any change to the School's financial statements.

At year ended 2004, the School's sick leave policy stated 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. During year ended 2005, the School adopted a new sick leave policy to state salaried employees accrue sick time of 15 days per year and are awarded 3 personal days at the beginning of the school year. Unused personal and sick leave expires at the end of each school year. As result of this change in sick leave policy has resulted in the restatement of the net assets.

4. CHANGES IN ACCOUNTING PRINCIPLES AND SCHOOL SICK LEAVE POLICY (Continued)

Net Assets at July 1, 2004	$	(27,006)
Adjustment Due to change in sick leave policy		4,751
Restated Net Assets at July 1, 2004	$	(22,255)

5. RECEIVABLES

Receivables at June 30, 2005, consisted of intergovernmental receivables (federal grants) of $4,858 and (state grants) of $4,916. All intergovernmental receivables are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

6. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Balance June 30, 2004	Additions	Deletions	Balance June 30, 2005
Equipment	$15,794	$0	$0	$15,794
Less Accumulated Depreciation	(7,852)	(3,159)	0	(11,011)
Depreciable Capital Assets, Net	$7,942	($3,159)	$0	$4,783

7. 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.

8. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at ohsers.org.

Plan members and the School are required to contribute 10% and 14% 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, 2005, 2004, and 2003 were $20,483, $15,212 and $5,420 respectively. $2,623 representing the unpaid contribution for fiscal; year 2005, 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 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 43215-3371, by calling (614) 227-4090, or by visiting the STRS website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan.

DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

8. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

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

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 years 2005 and 2004, 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, 2005, 2004, and 2003 were $29,433, $21,836, and $13,558, respectively. $3,357 representing the unpaid contribution for fiscal year 2005, is recorded as a liability within the Intergovernmental Payable on the financial statements.

9. 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. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the School, this amount equaled $2,102 during fiscal 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was $3.3 billion at June 30, 2005. For the fiscal year ended June 30, 2005, net health care costs paid by STRS were $254,780,000 million and STRS had 115,395 eligible benefit recipients.

9. POSTEMPLOYMENT BENEFITS (Continued)

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. 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.

For fiscal year 2005, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at $27,400. The 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.

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Expenses for health care at June 30, 2005 were $178,221,113 million. At June 30, 2005, SERS had net assets available for payment of health care benefits of $267.5 million and SERS had approximately 58,123 participants receiving health care benefits. For the School, the amount to fund health care benefits, including surcharge, equaled $7,183 during the 2005 fiscal year.

10. INSURANCE BENEFITS

The School has contracted with a private carrier to provide employee health insurance. For fiscal year 2005, the School paid 60% of the monthly premium for employees and 100% for the Chief Executive Officer. The total monthly premium ranged from $953.75 for family coverage to $288 for single coverage. Dental insurance is not provided.

11. 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 2005 were $3,108. 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. The total lease payments made in fiscal year 2005 were $13,500.

12. NOTES PAYABLE

Note	Beginning Balance	Additions	Deletions	Ending Balance
Line of Credit	$ 0	$ 19,700	$ 0	$ 19,700
Overdraft Protection	0	11,501	6,501	5,000
Total	$ 0	$ 31,201	$ 6,501	$ 24,700

12. NOTES PAYABLE (Continued)

The School entered into a line of credit in the amount of $20,000 with The Huntington National Bank on November 5, 2004 for the purpose of paying the School's operating expenses. The note has an initial rate of 6.75% and is subject to change from time to time based on changes in an index which is the Lender's Prime Commercial Rate. The line of credit was secured by all business assets. Interest payments are to be made monthly beginning December 31, 2004. The principal is due November 30, 2005. The School paid $153 in interest and fiscal charges in 2005.

The School maintains an overdraft protection account with The Huntington National Bank with a credit limit of $5,000. Throughout the year the School had to utilize this credit limit in order to meet their operating needs. At June 30, 2005, the School had a cash fund deficit of ($11,638); as such, the outstanding balance represents $5,000 of the fund deficit.

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, 2005..

B. Litigation

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

14. RELATED PARTY TRANSACTIONS

Andre Frazier, Milton Frazier, and Keith Frazier, relatives of Board President and Chief Executive Officer (CEO) Cynthia Frazier, were hired fiscal year 2005 to provide moving services when the School changed its operating location. Total compensation paid to them during fiscal year 2005 was $1,500, $600, and $500, respectively.

Sornatha Fulford was hired for consulting services at the School for the period July 1, 2004 through June 30, 2005, 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 2005 was $16,015.

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 2005 review resulted in the discovery of an overpayment to the School in the amount of $2,919. This amount has been reflected as an intergovernmental payable on the statement of net assets

16. PURCHASED SERVICES

For the period July 1, 2004 through June 30, 2005, purchased service expenses were for the following services:

Type	Amount
Professional Fees	$72,131
Repairs/Cleaning and Maintenance	25,540
Travel/Meeting Expense/Conference fees	74
Rent/Equipment Rental	17,809
Advertising/Printing/Reproduction	15,596
Miscellaneous	595
Contracted Food Service/Contract Labor	30,774
Total	**$162,519**

17. FINANCIAL DIFFICULTIES

For fiscal year 2005, the School had an unrestricted deficit ($107,708), operating loss ($146,739), and a net loss ($80,670). As further discussed in Note 19, the School has borrowed an additional $20,000 line of credit and $40,000 from CD Garrett's School Resources, LTD. The School has made no principal payments on the loans to date. The School has not made any principal payments on the line of credit; only interest payments. In addition, the School has not been able to pay their audit fees, totaling $12,080 as of December 9, 2006. Furthermore, the School has entered into an agreement with the Internal Revenue Service to pay delinquent taxes in the amount of $18,965. CD Garrett has also made purchases on behalf of the school totaling $24,700 during year ended 2006.

The School had no management plan in place for fiscal year ended June 30, 2006. At June 30, 2006, the School had a deficit of $44,559. Projected revenues and expenditures for fiscal year ended 2007 indicate these financial difficulties will not be eliminated during 2007 but may be eliminated in fiscal year 2008. For fiscal year 2007, it is management's plan to lay off a few employees, decrease expenses, and seek alternative funding sources, 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

On September 22, October 26 and November 22, 2005 the School requested additional lines of credit totaling $20,000 from The Huntington National Bank. The $20,000 line of credit, along with the original line of credit of $19,700, was converted to a short term loan of $39,700 on March 22, 2006.

19. SUBSEQUENT EVENTS (Continued)

Effective March 20, 2006, the School entered into a management contract with CD Garret School Resources, LTD. CD Garret's School Resources, LTD is owned by Board Member Ceola Garret. CD Garret's School Resources will be in charge of administrative services such as: develop a marketing plan, assist with the budget preparation, develop policy and procedures, perform all EMIS and CSADM functions, etc. In return for these services, the School will pay CD Garret's School Resources $3,000 per month. In addition, the School entered into a loan repayment agreement for $40,000 with CD Garrett's School Resources, LTD. There is no formal agreement requiring the loan to be paid back in a specific time frame.

On October 24, 2006, the School entered into an agreement with the Internal Revenue Service to pay delinquent taxes in the amount of $18,965. The agreement requires the School to make monthly payments of $2,000 until the debt has been liquidated. Twenty percent, which represents the liability at June 30, 2005, of the $18,965 has been shown as an intergovernmental payable on the statement of net assets.

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. On April 24, 2006, the Governing Board of the School approved entering into an agreement with Kids Count of Dayton to be the School's new sponsor effective June 1, 2006.

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, 2005, and have issued our report thereon dated December 29, 2006, wherein we noted the School restated July 1, 2004 net assets due to adopting a new sick leave policy, was experiencing certain financial difficulties, and has unpaid audit fees. 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 2005-001, 2005-003, and 2005-004.

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. We consider reportable condition 2005-003 listed above to be a material weakness. In a separate letter to the School's management dated December 29, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

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 instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as item 2005-002 and 2005-004. In a separate letter to the School's management dated December 29, 2006, 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

December 29, 2006

SCHEDULE OF FINDINGS
JUNE 30, 2005

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

Finding Number	**2005-001**

Cash Collection Procedures and Policies - Reportable Condition

The School maintains duplicate receipt books which contains 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 matched 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.

Officials' Response:

The School will comply with the Auditor of State's recommendation and will adhere to a formal policy that would govern collections made by School personnel or designee that would provide assurance over completeness and accuracy of cash receipts.

Finding Number	**2005-002**

Treasurer's Licensing Requirement -Material Non-Compliance

Ohio Revised Code Section 3314.011 states that every community school established under this chapter shall have a designated fiscal officer. The Auditor of State may require by rule that the fiscal officer of any community school, before entering upon duties as a fiscal officer of the school, execute a bond in an amount and with surety to be approved by the governing authority of the school, payable to the state, conditioned for the faithful performance of all the official duties required of the fiscal officer. Any such bond shall be deposited with the governing authority of the school, and a copy thereof, certified by the governing authority, shall be filed with the county auditor.

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

Finding Number	**2005-002 (Continued)**

Treasurer's Licensing Requirement -Material Non-Compliance (Continued)

Prior to assuming the duties of fiscal officer, the fiscal officer designated under this section shall be licensed under Ohio Revised Code § 3301.074 or shall complete not less than sixteen hours of continuing education classes, courses, or workshops in the area of school accounting as approved by the sponsor of the community school. Any fiscal officer who is not licensed under Ohio Revised Code § 3301.074 [3301.07.4] shall complete an additional twenty-four hours of continuing education classes, courses, or workshops in the area of school accounting as approved by the sponsor of the school within one year after assuming the duties of fiscal officer of the school. However, any such classes, courses, or workshops in excess of sixteen hours completed by the fiscal officer prior to assuming the duties of fiscal officer shall count toward the additional twenty-four hours of continuing education required under this section. In each subsequent year, any fiscal officer who is not licensed under Ohio Revised Code § 3301.074 shall complete eight hours of continuing education classes, courses, or workshops in the area of school accounting as approved by the sponsor of the school.

The Chief Executive Officer (CEO) is not licensed to perform treasurer duties in the State of Ohio. However, the CEO signed 96 grant checks out of 658 total checks issued from the School's grant and general account. These grant checks were not approved or signed by the treasurer at any time.

If the CEO is acting in the school treasurer's capacity, the School should follow the Ohio Revised Code regarding the licensing of the school treasurer.

Officials' Response:

On November 1, 2005 the school entered into a contractual agreement with a licensed treasurer. He has been involved with the school from then through the date of the audit.

The Chief Executive Officer (CEO) agrees that 96 checks may have been written and signed by other than the School Treasurer; however, disagrees that these functions were performed without the approval of the Treasurer. Several discussions were had regarding the physical availability of the Treasurer and alternate measures were taken to facilitate day to day operations. The CEO under designative authority of the Treasurer acted in good faith and discretion in facilitating on behalf of Treasurer and not in place of Treasurer.

Finding Number	**2005-003**

Purchasing Cycle - Reportable Condition/Material Weakness

Sound internal controls would require an employee requesting a good or services to verify that the product has been received or the service has been performed prior to the invoice being sent to the Treasurer for payment. Furthermore, the School should have procedures in place requiring the Chief Executive Officer (CEO) to monitor the expenditure and receipt ledgers to determine if the information is complete and accurate once they have been returned from the School's Treasurer.

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

Finding Number	**2005-003 (Continued)**

Purchasing Cycle - Reportable Condition/Material Weakness (Continued)

The School did not document any evidence that the goods or services were received prior to the CEO submitting the invoices to Treasurer for payment. In addition, the CEO does not currently match the check stub or a copy of the check to the related invoice after they have been inputted into the accounting system for payment.

Failure to receive proper documentation from the employee entering into disbursements may result in payment for goods that were not received or services that were not rendered in the amounts, quantities, or prices charges.

We recommend the School implement procedures requiring employees to document evidence to verify that the good or service requested have actually been received or performed prior to submitting to the Treasurer for payment. We also recommend the CEO match the check stub or a copy of the check to the related invoice to make sure the information is complete and accurate.

Officials' Response:

As of the fall 2006, a finance committee of the board was formed. This committee with the treasurer, CEO and management company reviews all the revenue and expenses monthly and makes recommendations on items to be paid before the disbursements are made.

Finding Number	**2005-004**

Filing of Annual Financial Reports- Material Noncompliance/Reportable Condition

Ohio Rev. Code Section 3314.03(A)(8) requires that a community school file its financial reports in the same manner as school districts. Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code §117-2-03 further clarifies the requirements of Ohio Revised Code §117.38.

Ohio Administrative Code Section 117-2-03(B) requires the School to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America (GAAP).

The School did not prepare a complete set of GAAP basic financial statements until July 17, 2006, twelve and half months after the year ending June, 30, 2005. After audit procedures were performed, the financial statements required twelve audit adjustments and several errors were noted in the footnotes. Furthermore, the School presented the cash flow statement using the indirect method which is not a prescribed method under the Governmental Accounting Standards Board Statement No. 34.

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

Finding Number	**2005-004**

Filing of Annual Financial Reports- Material Noncompliance/Reportable Condition (Continued)

The financial statements are prepared using generally accepted accounting principles (GAAP) to enhance the decision-making capabilities of the Board of Governors and managers charged with the operations of the School, and others with regulatory interests in the results of operations and available resources of the School. GAAP basis financial statements provide financial statement users with an accurate financial picture of the School's results of operations and available resources by including accrued assets, liabilities, revenues and expenses.

However, financial information becomes less valuable with the passage of time. This is primarily because accrued revenues and expenditures become realized. Those relying upon the School's financial statements may draw different conclusions if GAAP basis financial statements are not completed in a timely and accurate fashion. Inaccurate and untimely financial statements could possibly lead to decision-making which is not in the best interests of the School.

To enhance financial accountability and decision making by the Board, managers, and others with regulatory interest, we recommend the School prepare its GAAP basic financial statements in an accurate and timely manner as required by the Ohio Administrative Code. The Ohio Administrative Code requires financial statements to be completed within 150 days of fiscal year end.

Officials' Response:

We did not receive a response from the Officials to this finding.

THE MONTESSORI RENAISSANCE EXPERIENCE
FRANKLIN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2005

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***:
2004-001	The School did not complete duplicate receipts for all cash collections made throughout the year.	No	Re-issued as finding 2005-001
2004-002	The School could not account for 101 missing checks	Yes	
2004-003	Cash collections received for Latchkey were not deposited or recorded. Finding for Recovery	Yes	Finding Re-paid

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
MARCH 27, 2007

88 E. Broad St. / Fourth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us