OAK TREE MONTESSORI, INC.
HAMILTON COUNTY

NON-GAGAS AUDIT

FOR THE YEAR ENDED JUNE 30, 2005

Mary Taylor, CPA
Auditor of State

OAK TREE MONTESSORI, INC.
HAMILTON COUNTY

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INDEPENDENT ACCOUNTANTS' REPORT

Oak Tree Montessori, Inc.
Hamilton County
4721 Reading Road
Cincinnati, Ohio 45237

To the Board of Trustees:

We have audited the accounts, financial records, files and reports of Oak Tree Montessori, Inc., Hamilton County, Ohio (the School), as of and for the year ended June 30, 2005, following Ohio Admin. Code Section 117-4-02.

There are reportable conditions and non-compliance as a result of performing these procedures. These reportable conditions and non-compliance are described in the accompanying Schedule of Findings on page 21.

The School ceased operations on October 21, 2005, and was officially dissolved on April 18, 2006. All significant financial activity had been completed as of April 18, 2006. Footnote #14 discloses the School's financial activity from July 1, 2005 through March 31, 2006, when the School's financial transactions associated with operations ended and the bank account was closed out.

The Auditor of State has billed the School for audit services performed from July of 2004 through October of 2006. The total unpaid fees as of March 31, 2007, were $51,220.81.

This report is intended solely for the information and use of officials authorized to receive this report under Section 117.26 of the Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

June 5, 2007

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MANAGEMENT DISCUSSION AND ANALYSIS

The discussion and analysis of Oak Tree Montessori, Inc.'s (the School) financial performance provides an overall review of the 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 the 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 Governments*, issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented, and is presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2005 are as follows:

- The liabilities of the School exceeded its assets at year-end by $18,929.
- In total, net assets decreased by $30,829.
- In total, net liabilities increased by $44,016. The increase is primarily due to increases in outstanding accounts payable to vendors.
- Total assets increased by approximately $13,187 which represents a 10% increase from the prior year. The increase is primarily due to increases in cash and accounts receivable held by the School.

Using this Financial Report

This financial report contains the basic financial statements of the School, as well as the Management's Discussion and Analysis and notes to the basic financial statements. The basic financial statements include a statement of net assets, statement of revenues, expenses and changes in net assets, and a statement of cash flows. As the School reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity, therefore the entity wide and the fund presentation information is the same.

Statement of Net Assets

The statement of net assets answers the questions, "How did we do financially during the fiscal year?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term, using the accrual basis of accounting and the economic resources focus, which is similar to the accounting used by more private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

This statement reports the School's net assets, however, in evaluating the overall position and financial viability of the School, non-financial information such as this condition of the School building and potential changes in the laws governing charter schools in the State of Ohio will also need to be evaluated.

The following table presents a condensed summary of the School's overall financial position at June 30, 2005 and June 30, 2004:

	2005	2004
Current and other assets	$ 122,266	128,131
Capital assets	16,565	17,897
Total assets	138,831	146,028
Current liabilities	157,760	111,329
Long-term liabilities	0	-
Total liabilities	157,760	111,329
Net assets:		
Invested in capital assets, net of debt	16,565	17,897
Unrestricted	(35,494)	16,802
	$ (18,929)	34,699

The School kept enrollment up in the daycare which meant an increase in receivables, and was getting stricter with parents to pay their bills, including late fees. The School had an increase in outstanding accounts payable during the year primarily related to rent payable and other vendors.

Statement of Revenues, Expenses and Changes in Net Assets

The following table presents a condensed summary of the School's activities for the years ended June 30, 2005 and 2004:

		2005		2004
Revenues:				
Operating revenues:				
State Foundation	$	486,867		435,016
DPIA		115,148		81,040
Charges for services		289,626		282,621
Other operating revenues		3,310		14,085
Non-operating revenues:				
Federal grants		150,748		195,786
State grants		5000		8,561
Contributions		36,109		30,675
Total revenues		1,086,807		1,047,784
Expenses:				
Operating expenses:				
Salaries and wages		572,512		459,176
Fringe benefits		153,011		65,949
Purchased services:				
Professional and technical services		20,068		47,721
Property services		206,035		152,881
Communications		7,238		4,593
Utilities		23,183		25,151
Food services		50,614		6,569
Materials and supplies		12,557		27,979
Depreciation		9,387		9,195
Other Expenses		63,032		112,561
Total expenses		1,117,637		911,775
Change in net assets	$	(30,829)		136,009

Deteriorated financial results in 2005 were primarily related to the increase in salaries and wages as well as increased rent expense for the year.

Capital Assets

At June 30, 2005, the School had $16,565 invested in a broad range of capital assets, including leasehold improvements, furniture and equipment.

Capital Assets at Year-End (Net of Depreciation)

		2005		2004
Leasehold improvements	$	7,968		13,591
Equipment and furniture		8,597		4,306
Total	$	16,565		17,897

The decrease of $1,332 in capital assets results from recognizing current year depreciation of $9,387 offset by an addition of computer equipment of $8,055.

See note 6 of the notes to the basic financial statements for more detailed information on the School's capital assets.

Contacting the School

This financial report is designed to provide a general overview of the finances of the Oak Tree Montessori, Inc. and to show the School's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirement of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to:

Oak Tree Montessori
20 E. Central Parkway
Cincinnati, Ohio 45202
(513) 241-0448

OAK TREE MONTESSORI, INC.
Statement of Net Assets
June 30, 2005

Assets:		
Current assets:		
Cash	$	1,845
Accounts receivable		106,646
Intergovernmental receivable		3,774
Total current assets		112,365
Non-current assets:		
Security deposit		10,000
Capital assets, net		16,565
Total non-current assets		26,565
Total assets		138,831
Liabilities:		
Current liabilities:		
Accounts payable		51,661
Accrued wages and benefits		37,132
Intergovernmental payable		67,589
Compensated absences payable		1,378
Total current liabilities		157,760
Net Assets:		
Invested in capital assets.		16,565
Unrestricted		(35,494)
Total net assets	$	(18,929)

OAK TREE MONTESSORI, INC.
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2005

Revenues:		
Operating revenues:		
State Foundation	$	486,867
Disadvantaged pupil impact aid		115,148
Charges for services		289,626
Other operating revenues		3,310
Total operating revenues		894,950
Operating expenses:		
Salaries and wages		572,512
Fringe benefits		153,011
Purchased services:		
Professional and technical services		20,068
Property services		206,035
Communications		7,238
Utilities		23,183
Food services		50,614
Materials and supplies		12,557
Depreciation		9,387
Other Expenses		63,032
Total operating expenses		1,117,637
Operating income (loss)		(222,686)
Non-operating revenues:		
Federal grants		150,748
State grants		5,000
Contributions		36,109
Total nonoperating revenues		191,857
Net change in net assets		(30,829)
Net assets, beginning of year		11,900
Net assets, end of year	$	(18,929)

OAK TREE MONTESSORI, INC.
Statement of Cash Flows
Year Ended June 30, 2005

Cash flows from operating activities:		
Cash received from State of Ohio - Foundation	$	618,134
Cash received from State of Ohio – DPIA		
Cash received from customers		269,653
Cash received from other operating sources		3,310
Cash payments for personal services		(577,234)
Cash payments for employee benefits		(135,454)
Cash payments for goods and services		(273,623)
Cash payments for other expenses		(76,354)
Net cash used by operating activities		(171,568)
Cash flows from noncapital financing activities:		
Operating grants received		155,748
Donations received		36,109
Net cash provided by noncapital financing activities		191,857
Cash flows from Capital and Related Financing		
Capital assets purchased		8,055
Net change in cash		12,234
Cash at beginning of year		(10,389)
Cash and cash equivalents End of Year	$	1,845
Reconciliation of operating loss to net cash by operating activities:		
Operating loss		(222,686)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation		9,387
Changes in assets and liabilities:		
Accounts receivable		(34,958)
Intergovernmental receivable		22,285
Accounts payable		40,721
Accrued wages and benefits		8,132
Compensated absences		(4,622)
Intergovernmental payable		10,174
Net cash used by operating activities		(171,568)

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1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Oak Tree Montessori, Inc. (the "School") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service that qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code. The School, which is part of the state's education program, is independent of any school district.

Pauline Childs, the developer and Executive Director, initially proposed the creation of the School to the Ohio Department of Education, the sponsor, on March 5, 1998. The Ohio Department of Education approved the proposal and entered into a contract with the School, which provided for the commencement of operations on July 1, 1998.

The School operates under a seven-member Board of Trustees that is selected by a vote of other Board of Trustees and faculty of the School. The Board is responsible for carrying out provisions of the contract which include, but are not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualification of teachers.

The reporting entity is comprised of the primary government. The School follows the guidelines of Governmental Accounting Standards Board Statement No. 14 "The Financial Reporting Entity".

The primary government of the School consists of all departments that comprise the legal entity of the School. This includes general operations as well as preschool, infant and toddler daycare, summer camp, before care and aftercare programs. The preschool, infant and toddler daycare, summer camp, before care and aftercare programs are not operated under the school charter. However, School employees staffed these programs which are funded by charges for services and thus, these programs are presented in the financial statements.

Management is not aware of any course of action or series of events that have occurred that might adversely affect the school's tax-exempt status.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The School's financial statements 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 School has elected not to apply FASB Statements and Interpretations issued after November 30, 1989. The more significant of the School's accounting policies are described below.

A. BASIS OF PRESENTATION

The School uses enterprise accounting to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The accounting and financial reporting treatment is determined by measurement focus. 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 difference between total assets and liabilities is defined as net assets. The statement of revenues, expenses and changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

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 utilized for reporting purposes. Revenues are recognized when they are 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 budgetary provisions set forth in Ohio Rev. Code, Chapter 5705, unless specifically provided in a school's contract with its sponsor.

D. CASH

The general checking account is used for the charter school, preschool program, infant and toddler daycare, summer camp, before care and aftercare program. Total cash held at year-end is presented as "cash" on the accompanying balance sheet.

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 market value as of the date received. The School maintains a capitalization threshold of $1,000. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's life are expensed.

Depreciation of furniture and equipment is computed using the straight-line method over an estimated useful life of five years. Improvements to fixed assets are depreciated over the remaining useful lives of the capital assets. Improvements to the leased building are depreciated over the remaining life of the lease. The School does not possess any infrastructure.

F. INTERGOVERNMENTAL REVENUES

The School currently participates in the State Foundation Program and Disadvantaged Pupil Impact Aid (DPIA) Program. Revenues received from these programs are recognized as operating revenues in which they are earned, essentially the same as the fiscal year.

Federal and state grants 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 when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

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 these estimates.

H. COMPENSATED ABSENCES

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School will compensate the employees for the benefits through paid time off or some other means.

I. NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The School applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

J. CHARGES FOR SERVICES

The School charges students tuition to participate in the preschool, infant daycare, and aftercare programs. The operating revenue from these programs is recognized when earned and measurable.

3. CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2004, School has implemented GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", and GASB Statement No. 38, "Certain Financial Statement Note Disclosures".

GASB 34 creates new basic financial statements for reporting on School's financial activities and requires the inclusion of the Management Discussion and Analysis section which provides a narrative introduction and overview of the financial statements to enhance the user's ability to interpret the information within the statements.

4. DEPOSITS

At June 30, 2005, the School had a cash balance of $1,845. The bank balance was $9,549 of which $9,549 was covered through the Federal Depository Insurance Corporation (FDIC).

5. INTERGOVERNMENTAL RECEIVABLES

Intergovernmental Receivables at June 30, 2005, consisted of intergovernmental grants. All intergovernmental receivables are considered collectible in full given the stable condition of State programs and the current fiscal year guarantee of federal funds. The principal items of intergovernmental receivables as of June 30, 2005 are as follows:

School Lunch Program	$	3,774

6. CAPITAL ASSETS

A summary of the capital assets as of June 30, 2005, is as follows:

		Balance 7/1/04	Additions	Disposals	Balance 6/30/05
Leasehold improvements	$	28,117	-	-	28,117
Equipment and furniture		27,434	8,055	-	35,489
Totals at historical cost		55,551	8,055	-	63,606
Less accumulated depreciation:					
Leasehold improvements		14,526	3,764	-	18,290
Equipment and furniture		23,128	5,623	-	28,751
Total accumulated depreciation		37,654	9,387	-	47,041
Capital assets, net	$	17,897	(1,332)	-	16,565

7. RISK MANAGEMENT

The School is exposed to various risks related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2005, the School contracted with a commercial insurance carrier to address these risks. There has been no reduction in coverage from the prior year and settled claims have not exceeded the School's coverage in any of the past three years.

The School pays the State Workers' Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor calculated by the State. The School has contracted with a private carrier to provide medical and dental benefits to employees and their dependents.

8. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate that is currently 14 percent of covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were approximately $59,110, $42,000, and $30,000, respectively; 100% percent has been contributed for all three fiscal years.

B. State Teachers Retirement System

The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries and the School was required to contribute 14 percent.

Contribution rates are established by the State Teachers Retirement Board, upon recommendations 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 employer contributions.

The School's required contributions for pension obligations for the fiscal years ended June 30, 2005, 2004 and 2003, were approximately $26,400, $22,000, and $35,000, respectively; 100% percent has been contributed for all three fiscal years.

9. POST EMPLOYMENT BENEFITS

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. 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 percent of covered payroll. For the year ended June 30, 2005, the board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund. For the School, this amount was approximately $X,XXX (Open) during fiscal year 2005.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the fund was $X.X billion at June 30, 2005. For the year ended June 30, 2005, net health care costs paid by STRS were $XXX.X million and STRS had XXX,XXX eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were X.XX percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at $XX,XXX. For the School, the amount to fund health care benefits, including surcharge, was approximately $XX,XXX during the 2005 fiscal year.

The surcharge added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005 were $XXX.X million and the target level was $XXX.X million. At June 30, 2005, SERS had net assets available for payment of health care benefit of $XXX.X million. SERS has approximately XX,000 participants currently receiving health care benefits.

10. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from school policies and State laws. Classified twelve-month employees earn five weeks of vacation per year that must be used by the end of the contract term. Teachers who are not on a twelve-month contract do not earn vacation time. Teachers, administrators, and classified employees earn three sick days per year and three personal days per year.

B. Life Insurance

The School provides life insurance coverage in the amount of $25,000 to all employees through a private carrier.

11. OPERATING LEASE

During the year ended June 30, 2002, the School leased classroom facilities and offices for a period of five years. The lease also grants the School an option to renew the lease for an additional five years. The following is a schedule of future minimum lease payments as of June 30, 2005:

Year Ended June 30		
2006	$	185,831
2007		79,165
	$	264,996

12. CONTINGENCIES

A. Grants

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

B. State Funding

The Ohio Department of Education conducts reviews of enrollment data and FTE calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The results of this review could result in state funding being adjusted. This information was not available as of the date of this report. The School does not anticipate any material adjustments to state funding for fiscal year 2006, as a result of such review.

C. Pending 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. The effect of this suit, if any, on School is not presently determinable.

Add details on new lawsuit.

13. 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 its financial operations.

14. SUBSEQUENT EVENTS

On October 5, 2005, the Board of Trustees held an emergency board meeting to discuss the financial status of the school. Due to the continued financial under-funding of the school and the withdrawal of a significant FY 06 pledge from a major charitable corporate donor, the Board determined that the school was unable to continue. As such, the Board voted to close down the school to students effective October 21, 2005.

Note 14 – Subsequent Events (Continued)

Subsequent to June 30, 2005, the School received and disbursed monies for operational purposes for the period from July 1, 2005 through cessation of operations in October of 2005. Receipts and disbursements were also made after October of 2005 as part of closing the School. The following table summarizes the cash balance at June 30, 2005, and subsequent cash receipts and cash disbursements:

Cash Bank Balance as of June 30, 2005		$9,549
Cash Receipts – July 2005 through March 2006		
Intergovernmental	195,781	
Sale of Assets	11,675	
Other Receipts	138,856	
Total Cash Receipts – July 2005 through March 2006		346,312
Total Cash Disbursements – July 2005 through March 2006		355,861
Cash Bank Balance as of March 31, 2006		$0

Mary Taylor, CPA
Auditor of State

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

Oak Tree Montessori, Inc.
Hamilton County
4721 Reading Road
Cincinnati, Ohio 45237

To the Board of Trustees:

We were engaged to audit the basic financial statements of Oak Tree Montessori, Inc., Hamilton County, Ohio (the School), as of and for the year ended June 30, 2005. However, we have audited the accounts, financial records, files and reports of Oak Tree Montessori, Inc., Hamilton County, Ohio (the School), as of and for the year ended June 30, 2005, following Ohio Admin. Code Section 117-4-02, and have issued our report thereon dated June 5, 2007.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting to determine our auditing procedures to express our opinions 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 through 2005-008.

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 conditions 2005-001 and 2005-002 described above to be material weaknesses.

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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 instances of noncompliance we must report under *Government Auditing Standards,* which are described in the accompanying schedule of findings as items 2005-003 through 2005-008.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

June 5, 2007

OAK TREE MONTESSORI, INC.
HAMILTON COUNTY

SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005

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

FINDING NUMBER 2005-001

Material Weakness

Monthly Bank Reconciliations

The monthly bank reconciliation is an important management tool for explaining differences between the cash bank balance and the accounting system book balance and assists in the identification of improper or inaccurate postings to the accounting records and in the detection of intentional and non-intentional errors and irregularities. To ensure that the cash reconciliation is accurate, complete, and properly reconciled to the accounting records, it should be prepared on a timely basis by competent and adequately trained personnel and all related supporting documentation for the bank balances and reconciling items should be gathered, understood, and retained by the preparer of the reconciliation.

The School's cash reconciliation as of June 30, 2005, stated a reconciled book balance of $801. However, certain amounts and activity on the cash reconciliation were not able to be verified and we were therefore unable to determine the accuracy of the reconciliation. Also, the reconciled book balance of $801 did not agree to the Statement of Net Assets as of June 30, 2005, which reported a cash balance of $1,845.

We also examined the cash reconciliations for the months of July 2005 through December 2005. We were unable to verify all amounts and activity on the reconciliations for those months.

Officials' Response:

We received no response.

FINDING NUMBER 2005-002

Material Weakness

Financial Records and Accounting Reports Supporting the Trial Balances & Notes to the Financial Statements

The School's accounting system generated a trial balance report which served as the starting point and basis for the preparation of financial statements for fiscal year 2005. A trial balance report lists all general ledger classes of transactions and account balances and the corresponding total dollar amounts for each class of transactions and account balances. An integral part of a system of internal control is the agreement of amounts reported on the trial balance to underlying detailed financial records and reports.

We were unable to obtain detailed transaction records and reports from the School's accounting system which supported and verified the accuracy of amounts reported on the trial balance report (and the related financial statements). We were also unable to obtain a complete set of notes to the financial statements. As a result of this condition, we were unable to express an opinion on the financial statements prepared by the School for fiscal year 2005. Cash balances and transactions were tested in accordance with Section 117-4-02 of the Ohio Administrative Code.

Officials' Response:

We received no response.

FINDING NUMBER 2005-003

Reportable Condition/Noncompliance Citation

Minutes Records

Ohio Rev. Code, Section 121.22(C), provides that the minutes of a regular or special meeting of any public body shall be promptly prepared, filed, and maintained and shall be open to public inspection.

The minutes serve as an entity's official public record of the meetings, deliberations, actions, and decisions of the governing board. The minutes are useful in describing actions of potential significance for audit and reporting purposes.

In reviewing the minutes for the period of August 25, 2004 through October 26, 2005, no minutes were available for the meetings held on December 2, 2004, August 10, 2005, and November 7, 2005. For those meetings we were therefore unable to identify issues which may have had implications for audit and reporting purposes.

Officials' Response:

We received no response.

FINDING NUMBER 2005-004

Reportable Condition/Noncompliance Citation

Ohio Rev. Code, Section 117.38, requires GAAP-basis entities to file an annual report with the Auditor of State within 150 days of fiscal year end. Contrary to this requirement, the School failed to file any annual reports with the Auditor of State since November 3, 2003.

Pursuant to Ohio Rev. Code, Section 117.38, the Educational Service Center can be fined and various other administrative remedies may be taken against the Educational Service Center for its failure to file the required report.

Contrary to this requirement, the School failed to file any annual reports with the Auditor of State since November 3, 2003.

Officials' Response:

We received no response.

FINDING NUMBER 2005-005

Reportable Condition/Noncompliance Citation

Ohio Rev. Code, Section 149.351, establishes guidelines against the destruction or damage of records. All records are the property of the public office and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commission provided for under Ohio Rev. Code Sections 149.38 to 149.42. Contrary to these requirements, we were unable to locate the invoices supporting 13 of 86 (15%) expenditure transactions totaling $4,732.76 which were selected for testing. We were also unable to obtain two personnel files which were need for purposes of verifying gross wages as part of our payroll testing.

Officials' Response:

We received no response.

FINDING NUMBER 2005-006

Reportable Condition/Noncompliance Citation

Ohio Rev. Code, Section 3314.011, provides that every community school shall have a designated fiscal officer. Key duties of the fiscal officer include budgeting, monitoring compliance with the School's financial plan, and the preparation of annual reports for filing with the sponsor district and the State Auditor. During 2005, the School employed a full-time person who performed the duties of fiscal officer and also other responsibilities as requested by the School Director. Contrary to this requirement, the School did not provide evidence or documentation that indicated this person was designated as the School's fiscal officer.

Officials' Response:

We received no response.

FINDING NUMBER 2005-007

Reportable Condition/Noncompliance Citation

Ohio Rev. Code, Section 3314.03(A)(10), requires a community school's classroom teachers be licensed in accordance with Ohio Rev. Code Sections 3319.22 through 3319.31, except that a community school may engage non-certificated persons to teach up to twelve hours per week pursuant to Ohio Rev. Code Section 3319.301. Ohio Rev. Code Section 3319.301 provides that such persons must have a permit issued by the Ohio Department of Education. Contrary to these requirements, in the course of reviewing personnel files, we were unable to locate any licenses or permits for the teachers employed by the School.

Officials' Response:

We received no response.

FINDING NUMBER 2005-008

Reportable Condition/Noncompliance Citation

Ohio Rev. Code, Section 3314.03(A)(8), provides that each school shall maintain its records in the same manner as the financial records of school districts. This requirement is further set forth in Ohio Admin. Code Section 117-6-01(B) and requires the use of the Uniform School Accounting System (USAS). The USAS system requires schools to maintain their financial records at a specific minimal level of detail for each dimension of the account structure. OMB Circular Number A-133, Subpart C, Section .300 further requires, for every federal grant program, an identification in the accounts of all federal awards received and expended and the federal programs under which they were received.

Contrary to the requirements described above, the School did not maintain its accounts under the USAS system. Also, the School received federal funding under CFDA's 10.555, 84.010, 84.027, 84.186, and 84.367 from the Ohio Department of Education and did not separately account for each grant's receipts and disbursements.

Officials' Response:

We received no response.

OAK TREE MONTESSORI, INC.
HAMILTON 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	Monthly bank reconciliations were not prepared in a timely manner and unreconciled differences existed.	No.	Reissued as Finding 2005-001.
2004-002	Monitoring controls over the payroll cycle did not detect the failure to remit withholdings of income and employment taxes.	Yes.	
2004-003	The trial balance report was not adequately supported by detailed transaction records and reports from the School's accounting system.	No.	Reissued as Finding 2005-002.
2004-004	Deficiencies in the minutes records existed.	No.	Reissued as Finding 2005-003.
2004-005	Failure to officially designate a fiscal officer as required by Ohio Rev. Code, Section 3314.011.	No.	Reissued as Finding 2005-006.
2004-006	Personnel files did not contain evidence of valid teaching licenses as required by Ohio Rev. Code, Sections 3319.22 through 3319.31.	No.	Reissued as Finding 2005-007.
2004-007	Failure to file an annual report with the Auditor of State as required by Ohio Rev. Code, Section 117.38.	No.	Reissued as Finding 2005-004.

Mary Taylor, CPA
Auditor of State

OAK TREE MONTESSORI, INC.

HAMILTON 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 3, 2007

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