OAK TREE MONTESSORI, INC.
HAMILTON COUNTY

REGULAR AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 1999

JIM PETRO
AUDITOR OF STATE
STATE OF OHIO

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REPORT OF INDEPENDENT ACCOUNTANTS

Oak Tree Montessori, Inc.
Hamilton County
300 Lytle Place
Cincinnati, Ohio 45202

To the Board of Trustees:

We have audited the accompanying Balance Sheet of Oak Tree Montessori, Inc., Hamilton County, Ohio, as of June 30, 1999, and the related Statement of Revenues, Expenses, and Changes in Retained Earnings, and the Statement of Cash Flows for the year then ended. These financial statements are the responsibility of Oak Tree Montessori, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 that 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 Oak Tree Montessori, Inc., Hamilton County, Ohio, as of June 30, 1999, the results of its operations, and it's cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2000, on our consideration of Oak Tree Montessori Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Jim Petro
Auditor of State

March 9, 2000

COMBINED BALANCE SHEET – ENTERPRISE FUNDS
JUNE 30, 1999

Current Assets:	
Cash and Cash Equivalents	$102,419
Receivables:	
Accounts	2,989
Total Current Assets:	105,408
Furniture and Equipment	9,570
Less: Accumulated Depreciation	(1,914)
Furniture and Equipment, net	7,656
Total Assets	$113,064
Liabilities and Equity	
Current Liabilities:	
Account Payable	8,792
Accrued Wages and Benefits	22,500
Intergovernmental Payable	6,606
Total Liabilities	37,898
Long-Term Liabilities:	
Compensated Absences Payable	7,695
Total Liabilities	45,593
Equity:	
Contributed Capital	9,570
Retained Earnings:	
Unreserved	57,901
Total Equity	67,471
Total Liabilities and Equity	**$113,064**

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

COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS – ENTERPRISE FUNDS
JUNE 30, 1999

Operating Revenues:	
Charges for Services	$55,588
Food Service	2,701
Foundation Payments	273,186
Disadvantaged Pupil Impact Aid	51,084
State Special Education Program	8,899
Other Operating Revenue	2,048
Total Operating Revenues	393,506
Operating Expenses:	
Salaries	258,706
Fringe Benefits	46,511
Purchased Services	41,272
Materials and Supplies	42,704
Depreciation	1,914
Other Operating Expenses	7,400
Total Operating Expenses	398,507
Operating Loss	(5,001)
Non-Operating Revenues:	
Other State Grants	3,000
Federal Grants	57,302
Contribution Revenue	2,600
Total Non-Operating Revenues	62,902
Net Income	57,901
Retained Earnings at Beginning of Year	0
Retained Earnings at End of Year	$57,901

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

COMBINED STATEMENT OF CASH FLOWS – ENTERPRISE FUNDS
JUNE 30, 1999

Cash Flows from Operating Activities:	
Operating Loss	($5,001)
Adjustments To Reconcile Operating Income to Net Cash Provided (Used) for Operating Activities:	
Depreciation	1,914
Changes in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	(2,989)
Increase (Decrease) in Accounts Payable	8,792
Increase (Decrease) in Intergovernmental Payable	6,606
Increase (Decrease) in Accrued Wages	22,500
Increase (Decrease) in Compensated Absences Payable	7,695
Total Adjustments	44,518
Net Cash Provided for Operating Activities	39,517
Cash Flows from Noncapital Financing Activities:	
Federal and State Grants	60,302
Contributions	2,600
Net Cash Provided for Noncapital Financing Activities	62,902
Net Increase in Cash and Cash Equivalents	102,419
Cash and Cash Equivalents at Beginning of Year	0
Cash and Cash Equivalents at End of Year	$102,419

Noncash investing, capital, and financing activities:
During the fiscal year, the school received $9,570 in donated furniture and equipment from various sources. The furniture and equipment is included in the fixed assets at the fair market value at the time of donation on the balance sheet.

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

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Note 1 - Description of the School and Reporting Entity

Oak Tree Montessori, Inc. (the School) is a nonprofit corporation established pursuant to Ohio Rev. 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. Management is not aware of any course of action or series of events that have occurred that might adversely affect the School's exempt status. The School, which is part of the state's education program, is independent of any school district. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the school.

The creation of the School was initially proposed to the Ohio Department of Education, the sponsor, by Pauline Ach, the developer, 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. The Board is selected by a vote of the parents/guardians and faculty of the School. 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 Trustees controls the School's one instructional/support facility staffed by four non-certified and five certified full time teaching personnel who provide services to 70 students.

The reporting entity is composed of the primary government. The primary government of the School consists of all funds, departments, boards and agencies that are not legally separate from the School. For Oak Tree Montessori, Inc., this includes general operations, and preschool and aftercare programs.

The School has a preschool and aftercare programs that are not operated under the school charter. However, these programs were staffed by school employees and funded by charges for services. These programs are accounted for in a separate fund, and are presented in the combined financial statements.

Note 2 - Summary of Significant Accounting Policies

The financial statements of Oak Tree Montessori, Inc. 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. Basic Of Presentation

Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (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 Basics of Accounting

The accounting and financial reporting treatment is determined by its 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 balance sheet. Equity (i,e. net total assets) is segregated into contributed capital and retained earnings components. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Note 2 - Summary of Significant Accounting Policies (Continued)

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 they are earned, and expenses are recognized when they are incurred.

C. Budgetary

The Board adopted a budget as required by the school charter. The School's expenditures and revenues were within the budget adopted.

D. Cash and Cash Equivalents

All monies received by the School are accounted for by the School. For cash management, all cash received by the School is kept in three separate accounts. There is a general checking account for the charter school, a checking account for the preschool and aftercare programs, and a savings account. Total cash for all funds is presented as "cash and cash equivalents" on the accompanying balance sheet.

The school had no investments during the fiscal year.

E. Fixed Assets and Depreciation

Fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value as of the dates received. The School maintains a capitalization threshold of one thousand dollars. The School does not possess any infrastructure.
Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Depreciation of furniture and equipment is computed using the straight-line method over and estimated useful life of five years. Improvements to fixed assets are depreciated over the remaining useful lives of the related fixed assets.

F. Intergovernmental Revenues

The School currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid (DPIA) Program, and the State Special Education Program. These programs are recognized as operating revenues in the accounting period in which they are earned and become measurable.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which they are earned and became measurable.

G. Charges for Services

The School charges students tuition to participate in the preschool and aftercare programs. These programs are recognized as operating revenues in the accounting period in which they are earned and become measurable.

Note 2 - Summary of Significant Accounting Policies (Continued)

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. The School records a liability for accumulated unused vacation time when earned for all employees.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments.

The entire amount of compensated absences is reported as a liability.

I. Accrued Liabilities

Obligations, such as accrued wages and benefits, are reported as liabilities in the accompanying financial statements.

J. Contributed Capital

Contributed capital represents resources from other governments and private sources provided to the School that are not subject to repayment. These assets are recorded at their fair market value on the date contributed. Depreciation on those assets acquired or constructed with contributed resources is expensed.

Note 3 - Cash and Deposits

At June 30, 1999 the school had a cash balance of $102,419 which is presented as a cash and cash equivalents in the accompanying financial statements. The bank balance of the School's deposits was $114,732 of which $100,000 was covered through federal depository insurance (FDIC), and $14,732 is uninsured and uncollateralized.

Note 4 - 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. For fiscal year 1999, the School contracted with General Accident Insurance Company of America for property and general liability insurance. There is a $1,000 deductible with a one hundred percent blanket, all risk policy.

B. Workers' Compensation

The School pays the State Workers' Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the state.

C. Employee Medical, Dental, and Vision Benefits

The School has contracted with a private carrier to provide employee medical/surgical benefits. The School pays 75% of the monthly premium and the employee is responsible for the remaining 25%. For fiscal year 1999, the School and the employees' premiums were $286.40 and $91.26 for family coverage and $129.00 and $41.84 for single coverage per employee per month, respectively.

Note 4 - Risk Management (Continued)

The School has also contracted with private carriers to provide dental insurance. As with medical benefit premiums, the School pays 75% of the monthly premium and the employee is responsible for the remaining 25%. For fiscal year 1999, the School and employees' premiums were $51.53 and $17.18 for family coverage and $18.44 and $6.15 for single coverage per employee per month, respectively.

Note 5 - Defined Benefit Pension Plans

A. School Employees Retirement System

The School contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required statements and required supplementary information for SERS. That report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the School is required to contribute 14 percent; for fiscal year 1999, 7.7 percent was the portion to fund pension obligations. The contribution rates are established by SERS's Retirement Board within the rates allowed by State statute. The School's required contribution for pension obligations to SERS for the fiscal year ended June 30, 1999 was $9,573; 97 percent has been contributed for fiscal year 1999. $307 representing the unpaid contributions for fiscal year 1999, is recorded as a liability.

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 basic retirement benefits, disability, survivors, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and the School is required to contribute 14 percent; 6 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School's required contribution for pension obligation to STRS for the fiscal year ended June 30, 1999 was $21,523; 88 percent has been contributed for fiscal year 1999. $2,681 representing the unpaid contributions for fiscal year 1999, is recorded as a liability.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teacher Retirement System. As of June 30, 1999, the School has no employees or members of the governing board who contribute to Social Security.

Note 6 - Postemployment 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 System based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

For STRS , all benefit recipients are required to pay a portion of 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. The board currently allocates employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund from which payments for health care benefits are paid. For the School, this amount equaled $1,686 during the 1999 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 1998 (the latest information available) the balance in the Fund was $2,156 million. For the year ended June 30, 1998, net health care costs paid by STRS were $219,224,000 and STRS had 91,999 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, 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.

For this fiscal year, employer contributions to fund health care benefits were 6.3 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 1999, the minimum pay has been established at $12,400. For the School, the amount to fund health care benefits, including surcharge, equaled $584 during the 1999 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 125 percent of annual health care expenses. Expenses for health care at June 30, 1998 (the latest information available), were $111,900,575 and the target level was $139.9 million. At June 30, 1998, SERS had net assets available for payment of health care benefits of $160.3 million. SERS has approximately 50,000 participants currently receiving health care benefits.

Note 7- 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. Vacation must be used by the end of the contract term. Teachers and administrators who are not on twelve month contract do not earn vacation time. Teachers, administrators and classified employees earn five sick days per year and five personal days per year. Sick leave and personal leave must be used during the year.

B. Insurance Benefits

The School District provides life insurance to all employee through a private carrier. Coverage in the amount of $25,000 is provided for all certified and noncertified employees.

Note 8 - Changes in Contributed Capital

Changes in contributed capital for the year ended June 30, 1999, are summarized by source as follows:

Contributed Capital July 1, 1998	$ -0-
Current contributions (Donated Equipment)	9,570
Contributed Capital June 30, 1999	$ 9,570

Note 9 - State School Funding Decision

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's school foundation program which provides significant amounts of monetary support to the School. During the fiscal year ended June 30, 1999, the School District received $273,186 of school foundation support for its operations.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the Ohio General Assembly in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient", clause of the Ohio Constitution. The State has appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. At this time, the Ohio Supreme Court has not rendered an opinion on this issue. The decision of the Court of Common Pleas in Perry County has been stayed by the Ohio Supreme Court, and, as such, schools are still operating under the laws that the Common Pleas Court declared unconstitutional.

As of the date of these financial statements, the School is unable to determine what effect, if any, this ongoing litigation will have on its future State funding under this program and on its financial operations.

Note 10 - Contingencies

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 financial position of the School at June 30, 1999.

Note 11 - Federal Charter School Sub-grant

During fiscal year 1999, the School received $50,000 of federal grant money for the design and implementation of its charter school. This is the first installment of three that the school received. The money can be used for certain expenses as described in the grant agreement. As of June 30, 1999, the School had not expended any of the money.

Note 12 - Related Party

During fiscal year 1999, the Executive Director of Oak Tree Montessori, Inc. was a family member of two board members of the School. Expenses recognized for this position were $49,000 (of which all was paid by year end).

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REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Oak Tree Montessori, Inc.
Hamilton County
300 Lytle Place
Cincinnati, Ohio 45202

To the Board of Trustees:

We have audited the financial statements of Oak Tree Montessori, Inc., Hamilton County, Ohio as of and for the fiscal year ended June, 30, 1999, and have issued our report thereon dated March 9, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Oak Tree Montessori, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* as item 1999-10431-001.

We also noted certain immaterial instances of noncompliance that we have reported to management of Oak Tree Montessori, Inc. in a separate letter dated March 9, 2000.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Oak Tree Montessori Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance 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 to be 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 Oak Tree Montessori, Inc.'s ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 1999-10431-002 and 1999-10431-003.

A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of 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 to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over Oak Tree Montessori, Inc. Hamilton County financial reporting that do not require inclusion in this report, that we have reported to management of Oak Tree Montessori, Inc. in a separate letter dated March 9, 2000.

This report is intended for the information and use of the management and the Board of Trustees, and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

March 9, 2000

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

FINDING NUMBER 1999-10431-001

Finding for Recovery

Teacher, Denise Angel, was employed for only a portion of the 1998-1999 school year. Her contract specified that for a full school year worked, she was to be paid $25,000 over 24 equal periods. During the year, there was an error in calculating her pay. Therefore, pursuant to the contract, she should have only received $20,312.50 rather than the $20,442.70 paid out. According to Ohio Rev. Code, Section 117.28, this is an illegal expenditure.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code, Section 117.28, a Finding for Recovery in favor of Oak Tree Montessori School in the amount of $130.20, for the illegal expenditure of public monies, is hereby issued against Denise Angel.

On December 9, 1999, Denise Angel agreed to have a portion of the amount taken from each pay check until the amount has been paid in full.

FINDING NUMBER 1999-10431-002

Reportable Condition

Development and Implementation of Payroll Processing Procedures

The following control weaknesses were noted in the system for processing payroll:

- None of the employees were approved for hire through the Board of Trustees, nor was the established pay rate for the positions approved;
- Employees paid on an hourly basis had no time sheets completed or approval documenting the hours worked (in December 1998 payroll worksheets were maintained for hourly employees, but were not reviewed)
- There was no review of the payroll worksheets maintained by the Assistant Director for teachers' attendance;
- No review was documented comparing the payroll reports from the payroll service organization (ADP) to the school's payroll records;
- No records were maintained indicating any leaves of absences or leave time taken during the audit period.

Failure to establish a favorable control environment could result in a material misstatement, overpayment, or unauthorized payment relating to payroll expenditures to occur.

The following procedures should be applied to ensure that a favorable control environment is in place to identify misstatements either as they occur or through the review process:

- Approval through the Board of Trustees to hire all employees of the School;
- Approval through the Board of Trustees of all pay rates;
- Review process to ensure all employees' gross wages as paid agree to the approved pay rate;
- Process requiring all wages paid to hourly (non-salary) employees to be adequately supported by a time sheet documenting hours worked and which has been appropriately approved by someone with sufficient knowledge to verify the hours worked;
- Review process of attendance of salaried employees;
- Approval through the Board of Trustees for all pay rate increases;
- Maintain records for employees showing leave accrued and leave used and documentation that the records are reviewed by the Director.

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

FINDING NUMBER 1999-10431-002 (Continued)

The School has indicated that they are implementing the procedural changes recommended.

FINDING NUMBER 1999-10431-003

Reportable Condition

<u>Development and Implementation of Tuition Revenue Procedures for the Preschool and Aftercare Programs</u>

The School has a preschool and aftercare programs that are not operated under the school charter. However, these programs were staffed by school employees and funded by charges for services. These programs are accounted for in a separate fund, and are presented in the combined financial statements.

The following control weaknesses were noted in the tuition revenue process control environment:

- The rates for the preschool and before and after school care program were approved by the Board of Trustees but not documented in the minutes;
- Receipts were only given to parents who asked for a receipt;
- A ledger was not maintained of student accounts;
- Copies of the Hamilton County vouchers were not kept for students receiving assistance;
- Teachers maintained the records of the hours children were in the before and after school care program with no review by the Director.
- There was no documented review by the Director or Assistant Director of the receipts posted to the general ledger.

Failure to establish a favorable control environment could result in a material misstatement of revenue, or the misappropriation of assets.

The following procedures should be applied for tuition for preschool and after school revenue to ensure a favorable control environment is in place to identify misstatements either as they occur or through the review process:

- Approval through the Board of Trustees on rates for the preschool and before and after school care programs;
- Use a duplicate and pre-numbered receipt book to give receipts to the parent and to have a copy;
- Maintain a receivable ledger showing the amounts charged and the amounts paid for preschool and after and before school care programs;
- Maintain a copy of the vouchers received from Hamilton County for students receiving assistance;
- Utilize a time sheet for the before and after school care program for parents to sign in and sign out their children;
- Review process of receipts as posted to the general ledger to ensure appropriate coding was used.

The School has indicated that they are implementing the procedural changes recommended.

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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
APRIL 4, 2000