OAK TREE MONTESSORI, INC.
HAMILTON COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2002

Auditor of State
Betty Montgomery

OAK TREE MONTESSORI, INC.
HAMILTON COUNTY

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Oak Tree Montessori, Inc.
Hamilton County
20 East Central Parkway
Cincinnati, Ohio 45202

To the Board of Trustees:

We have audited the accompanying Balance Sheets of Oak Tree Montessori, Inc., Hamilton County, Ohio (the School), as of June 30, 2002 and 2001, and the related Statements of Revenues, Expenses, and Changes in Fund Equity, and the Statements of Cash Flows for the years then ended. 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 *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 the School as of June 30, 2002 and 2001, and the results of its operations and the cash flows for the years then ended in conformity with generally accepted accounting principles.

The Auditor of State has billed the School for audit services provided for fiscal year 2001. As of the date of this report, the School has been billed $13,000 and has yet to pay $13,000.

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In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2003, 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 grants for the year ended June 30, 2002. We previously issued our report dated April 17, 2002, 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 grants for the year ended June 30, 2001. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Betty Montgomery

Betty Montgomery
Auditor of State

April 30, 2003

OAK TREE MONTESSORI, INC.

Balance Sheets

June 30, 2002 and 2001

		2002	2001
Assets			
Current assets:			
Cash	$	23,473	20,554
Accounts receivable		34,850	28,623
Intergovernmental receivable		25,964	-
Prepaid rent		-	2,550
Total current assets		84,287	51,727
Capital assets:			
Furniture and equipment		27,434	16,669
Leasehold improvements		28,117	-
Less: accumulated depreciation		(17,349)	(8,582)
Capital assets, net		38,202	8,087
Other assets:			
Deposit		10,000	-
Total assets	$	132,489	59,813
Liabilities and Fund Equity			
Current liabilities:			
Accounts payable	$	28,242	3,602
Accrued wages and benefits		35,239	32,706
Deferred revenue		2,635	4,948
Intergovernmental payable		11,457	13,828
Loan payable, current portion		7,698	-
Total current liabilities		85,271	55,084
Long-term liabilities:			
Loan payable, net of current portion		22,977	-
Compensated absences payable		5,096	2,854
Total long-term liabilities		28,073	2,854
Total liabilities		113,344	57,938
Fund Equity:			
Contributed capital		9,570	9,570
Retained earnings:			
Unreserved		9,575	(7,694)
Total fund equity		19,145	1,876
Total liabilities and fund equity	$	132,489	59,813

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

OAK TREE MONTESSORI, INC.

Statements of Revenues, Expenses and Changes in Fund Equity

Years Ended June 30, 2002 and 2001

		2002	2001
Operating revenues:			
Charges for services	$	256,318	186,848
Food service		4,147	17,004
Foundation payments		363,097	258,978
Disadvantaged pupil impact aid		80,099	68,886
State special education program		24,499	41,949
Other		12,846	11,003
Total operating revenues		741,006	584,668
Operating expenses:			
Salaries		476,393	424,532
Fringe benefits		120,557	167,997
Purchased services:			
Rent		92,637	30,600
Contract services		40,259	22,446
Utilities		18,329	7,610
Field trip		3,409	4,854
Parking		1,213	6,431
Other purchased services		40,618	30,986
Supplies and materials		78,108	41,618
Depreciation		8,767	3,334
Food service		24,077	22,017
Other		10,731	505
Total operating expenses		915,098	762,930
Operating loss		(174,092)	(178,262)
Non-operating revenues:			
Other state grants		25,711	78,457
Federal grants		150,000	29,549
Contributions		15,650	1,000
Total non-operating revenues		191,361	109,006
Net income (loss)		17,269	(69,256)
Retained earnings at beginning of year		(7,694)	61,562
Retained earnings at end of year		9,575	(7,694)
Contributed capital at beginning of year		9,570	9,570
Contributed equipment		-	-
Contributed capital at end of year		9,570	9,570
Total fund equity at end of year	$	19,145	1,876

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

OAK TREE MONTESSORI, INC.

Statements of Cash Flows

Years Ended June 30, 2002 and 2001

		2002	2001
Cash flows from operating activities:			
Operating loss	$	(174,092)	(178,262)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation		8,767	3,334
Changes in assets and liabilities:			
Accounts receivable		(6,227)	(10,413)
Intergovernmental receivable		(25,964)	-
Prepaid rent		2,550	(2,550)
Deposit		(10,000)	-
Accounts payable		24,640	(4,294)
Intergovernmental payable		(2,371)	(267)
Accrued wages and benefits		2,533	11,104
Deferred revenue		(2,313)	4,948
Compensated absences payable		2,242	(3,227)
Net cash used by operating activities		(180,235)	(179,627)
Cash flows from noncapital financing activities:			
Federal and state grants		175,711	158,006
Loan		32,000	-
Loan repayments		(1,325)	-
Contributions		15,650	1,000
Net cash provided by noncapital financing activities		222,036	159,006
Cash flows from capital and related financing activities:			
Acquisition of capital assets		(38,882)	-
Net change in cash		2,919	(20,621)
Cash beginning of year		20,554	41,175
Cash end of year	$	23,473	20,554

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

NOTE 1 – REPORTING ENTITY AND BASIS OF PRESENTATION

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 the parents/guardians of students 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 daycare, and aftercare programs. The preschool, infant daycare, 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.

BASIS OF PRESENTATION – FUND ACCOUNTING

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 services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that a periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of Oak Tree Montessori, Inc. are 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 significant accounting policies followed in the preparation of these financial statements are summarized below.

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 balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total assets.

Basis of accounting refers to when revenues and expenditures or 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 incurred.

CASH

All cash received by the School is kept in two separate accounts. The general checking account is used for the charter school, preschool program, infant daycare, and aftercare program. In addition, the School also uses a savings account. Total cash held at year-end is presented as "cash" on the accompanying balance sheet.

CAPITAL ASSETS AND DEPRECIATION

Capital assets are capitalized at cost where historical records are available and at estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair value on the date received. Assets valued at less than $1,000 are not capitalized.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. The School does not possess any infrastructure.

Depreciation of furniture and equipment is computed using the straight-line basis over an estimated useful life of five years. Leasehold improvements are depreciated over the remaining life of the lease.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ACCRUED LIABILITIES

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

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.

CONTRIBUTED CAPITAL

Contributed capital represents equity acquired through capital grants and capital contributions from other governments and private sources.

ACCOUNTING 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.

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. The operating revenue from these programs is recognized in the accounting period in which all eligibility requirements have been met.

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 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.

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.

NOTE 3 - DEPOSITS

At June 30, 2002, the carrying amount of the School's deposits was $23,473 and the bank balance was $24,436, which was covered by federal depository insurance.

At June 30, 2001, the carrying amount of the School's deposits was $20,554 and the bank balance was $28,139, which was covered by federal depository insurance.

NOTE 4 – LOAN PAYABLE

During the year ended June 30, 2002, the School borrowed $32,000 at an interest rate of 7.25% from the Executive Director. As of the June 30, 2002, the balance outstanding was $30,675. The note calls for payments of principal and interest of $1,200 per month commencing on November 1, 2002 with the entire principal balance payable by November 1, 2004. The following is a schedule of future principal and interest payments as of June 30, 2002:

Year Ending June 30		Principal	Interest	Total
2003	$	7,698	1,902	9,600
2004		13,166	1,234	14,400
2005		9,811	227	10,038
	$	30,675	3,363	34,038

NOTE 5 – 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, 2002:

	Year Ending June 30	
	2003	$ 134,742
	2004	160,580
	2005	176,250
	2006	185,831
	2007	79,165
Minimum lease payments		$ 736,568

NOTE 6 - DEFINED BENEFIT PENSION PLANS

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. Chapter 3309 of the Ohio Revised Code establishes benefits. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to SERS, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9% of their annual covered salary and the School is required to contribute at an actuarially determined rate that is currently 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts by the SERS's Retirement Board. The School's required contributions to SERS for pension and postemployment benefits for the fiscal years ended June 30, 2002, 2001 and 2000 were approximately $30,000, $22,000 and $15,000 respectively; 93% has been contributed for fiscal year 2002 and 100% for fiscal years 2001 and 2000. The unpaid contribution for fiscal year 2002 is recorded as a liability.

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 basis retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Chapter 3307 of the Ohio Revised Code establishes benefits. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to STRS, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3% of their annual covered salary and the School is required to contribute 14%. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The School's required contributions for pension and postemployment contributions to STRS for the fiscal years ended June 30, 2002, 2001 and 2000 were approximately $35,000, $32,000 and $31,000 respectively; 98% has been contributed for fiscal year 2002 and 100% for fiscal years 2001 and 2000. The unpaid contribution for fiscal year 2002 is recorded as a liability.

Social Security System

All employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. No employees or members of the governing board have elected social security.

NOTE 7 - 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 Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by state statute and are funded on a pay-as-you-go basis.

STRS 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 the years ended June 30, 2002 and 2001, the board allocated employer contributions equal to 4.5% and 8%, respectively, of covered payroll to the Health Care Reserve Fund. For the School, this amount was approximately $11,200 and $18,300, respectively, during the 2002 and 2001 fiscal years. STRS pays health care benefits from the Health Care Reserve Fund. The balance in the fund was $3.256 billion at June 30, 2001. For the year ended June 30, 2001, net health care costs paid by STRS were $300.8 million and STRS had 102,132 eligible benefit recipients. For SERS, coverage is made available to service retirees with ten or more 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% of the premium.

For the 2002 and 2001 fiscal years, employer contributions to fund health care benefits were 9.80% and 8.45%, respectively, 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 years 2002 and 2001, the minimum pay has been established at $12,400. The surcharge rate 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. Expenses for health care for the year ended June 30, 2001 were $161.4 million and the target level was $242.2 million. At June 30, 2001, SERS' net assets available for payment of health care benefits was $315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits. For the School, this amount equaled approximately $21,000 and $13,300, respectively, during the 2002 and 2001 fiscal years.

NOTE 8 – OTHER EMPLOYEE BENEFITS

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 and administrators who are not on a 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.

Life Insurance

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

NOTE 9 - RISK MANAGEMENT

The School is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal years 2002 and 2001, the School contracted with a commercial insurance carrier to address these risks. Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction in coverage from the prior year.

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

NOTE 10 – 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.

NOTE 11 – CONTINGENCIES

Federal and State Grants

The School received financial assistance from federal and state agencies in the form of grants. The expenditure 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 to 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, 2002.

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 the School is not presently determinable.

State Funding

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency 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 review resulted in the discovery of an underpayment to the School in the amount of $25,964. A receivable has been reflected as of June 30, 2002 for this underpayment, which was received subsequent to year-end.

NOTE 12 – RELATED PARTY

The Executive Director of the School is a family member of two Board members of the School. The authorized contract amounts for the position were $53,000 annually for the years ended June 30, 2002 and 2001.

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Auditor of State
Betty Montgomery

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

Oak Tree Montessori, Inc.
Hamilton County
20 East Central Parkway
Cincinnati, Ohio 45202

To the Board of Trustees:

We have audited the accompanying financial statements of Oak Tree Montessori Inc., Hamilton County, Ohio (the School), as of and for the year ended June 30, 2002, and have issued our report thereon dated April 30, 2003, wherein we noted that audit services for fiscal year 2001 had not been paid. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School'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*, which is described in the accompanying Schedule of Findings as item 2002-10431-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the School in a separate letter dated April 30, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School'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 the School'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 2002-10431-001, 2002-10431-002, 2002-10431-003, and 2002-10431-004.

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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. Of the reportable conditions described above, we consider item 2002-10431-004 to be a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School in a separate letter dated April 30, 2003.

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

Betty Montgomery

Betty Montgomery
Auditor of State

April 30, 2003

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

FINDING NUMBER 2002-10431-001

Reportable Condition/Noncompliance Citation/Finding for Recovery

Ohio Rev. Code, Section 33.14(10)(A)(2), states that a community school is subject to Chapters 3309 of the Ohio Revised Code. Ohio Rev. Code Sections 3309.23, 3309.341, 3309.47, 3309.49, require a community school to enroll certain employees in the School Employees Retirement System (SERS) and to withhold from the employees' wages a certain percentage of earned wages and to pay over to SERS the amounts withheld and a percentage of employer matching contributions. Contrary to these requirements, as of April 3, 2003, the School had not remitted $6,282 of members' contributions to SERS. The School's Office Manager has contacted a representative of SERS regarding the delinquencies.

In accordance with the foregoing facts and pursuant to the Ohio Rev. Code requirements described above, a Finding for Recovery in favor of SERS, in the amount of $6,282, is issued against Oak Tree Montessori, Inc.

FINDING NUMBER 2002-10431-002

Reportable Condition

The School's monthly bank reconciliations are usually prepared by the School's Office Manager. Due to turnover in the position of Office Manager, the reconciliation at June 30, 2002, was prepared by the School's Accountant. The June 30, 2002 reconciliation reported a book balance of $22,905.64 while cash reported on the Balance Sheet at June 30, 2002 was $23,473.00. The difference of $567.36 between the reconciled balance on the bank reconciliation and the cash reported on the Balance Sheet could not be explained by the School's Accountant or management.

Reconciling of cash on a monthly basis can help prevent or detect incomplete or improper postings of transactions and also identifies inaccurate balances. In examining the bank reconciliation at June 30, 2002 and the corresponding unreconciled difference of $567.36, we scanned monthly bank reconciliations for the months after June 30, 2002. The bank reconciliations prepared for the months after June 30, 2002 did not agree to the accounting records and contained amounts which appeared to be misstated.

Each monthly bank reconciliation should be reviewed and approved by management to ensure that the reconciliation is accurate, complete, and properly reconciled to the School's accounting records. We recommend that the School Director and/or Trustees regularly review the monthly bank reconciliation and document in writing that such review(s) have been performed.

FINDING NUMBER 2002-10431-003

Reportable Condition

The School maintains a cash fund in the School Office which serves as a means for paying for small and unexpected expenditures for items such as postage, expenditures incidental to field trips, and certain food expenditures for school meetings and functions. The School sometimes places daily tuition and lunch receipts into the cash fund prior to deposit and sometimes replenishes the cash fund directly from daily cash receipts. These practices are likely to result in inaccurate and incomplete recording and reporting of daily transactions, and may increase the likelihood that diversions or thefts of cash go undetected due to a lack of accountability. In scanning petty cash records, we also noted that petty cash records had not been reconciled or reviewed since June 30, 2002. The School's new Office Manager has addressed petty cash and is in the process of reconciling the petty cash records.

FINDING NUMBER 2002-10431-003
(Continued)

We recommend that the Board establish a petty cash policy which specifies the amount of the fund, who is authorized to draw monies from the fund, and what types of purchases may be made from the fund. The policy should require replenishing the fund by the writing of a check, and should prohibit replenishing the fund from undeposited cash. We also recommend that the School Director regularly review the petty cash records to determine that petty cash activity is properly recorded in the accounting records.

FINDING NUMBER 2002-10431-004

Reportable Condition/Material Weakness

In the course of examining accounts receivable related to the School's infant daycare, pre-school, and aftercare programs, we noted that numerous delinquent accounts were included in the accounts receivable balance at June 30, 2002. Many delinquent accounts were of significant dollar amount and had been delinquent for up to ten months. Further examination of these accounts with the School's Office Manager and discussion with the School Director resulted in an audit adjustment to write-off a material amount of accounts receivable. Early in April of 2003, approximately $30,000 of accounts were sent to a collection agent. Management estimated that $22,000 of the $30,000 would not be collectible.

We recommend that the School adopt procedures and policies for the timely monitoring and write-off of accounts receivable. Procedures might include printing of a monthly accounts receivable report which is reviewed by the Trustees and the School Director to identify delinquent accounts and consider collection efforts. Additionally, the School should consider adopting a policy which clearly states the number of days that an account can be outstanding before being considered delinquent.

OAK TREE MONTESSORI, INC.
HAMILTON COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2001

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2001-10431-001	During the period from May 1, 2000 through February 28, 2002, management had found that monies were missing from the School's petty cash fund. The total amount missing was $645. Management stated that the monies were stolen from the desk drawer of the Assistant Director during periods of time in which the drawer was unlocked and no one was present in the office to safeguard the monies.	No	School officials made attempts to obtain repayment. However, the finding was not repaid, and due to cost factors, the School has not pursued the matter further.

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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
MAY 22, 2003