



**Auditor of State
Betty Montgomery**

**SABIS® INTERNATIONAL SCHOOL OF CINCINNATI
HAMILTON COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Balance Sheet as of June 30, 2001	3
Statement of Revenues, Expenses, and Changes in Retained Earnings for the Year Ended June 30, 2001	4
Statement of Cash Flows for the Year Ended June 30, 2001.....	5
Notes to the Financial Statements	7
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	15
Schedule of Findings.....	17

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

SABIS® International School of Cincinnati
Hamilton County
244 Southern Avenue
Cincinnati, Ohio 45219

To the Board of Trustees:

We were engaged to audit the accompanying balance Sheet of SABIS® International School of Cincinnati, Hamilton County, Ohio (the School), as of June 30, 2001, 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 the School's management.

The School has not obtained an exemption from Federal income taxes. Therefore, its net earnings are subject to such income tax. The accompanying financial statements do not include a provision for income taxes or accrued income taxes, which we believe should be included to conform with accounting principles generally accepted in the United States of America.

Because of the departure referred to in the preceding paragraph, net income and retained earnings are overstated and liabilities for accrued income taxes are understated by amounts which, while material, we are unable to determine.

School management declined to provide written representations related to the financial statements; completeness of information; and recognition, measurement and disclosure of misstatements, fraud, unasserted claims, undisclosed liabilities and violations of laws and regulations.

Since the school did not provide written representations related to the issues described in the preceding paragraph, the scope of our auditing procedures was not sufficient to enable us to express, and we do not express, an opinion on these financial statements.

The accompanying financial statements have been prepared assuming that the School will continue as a going concern. As discussed in note 10 to the financial statements, the School Board operated the School through the 2002 school year, and terminated their operating agreement with their service provider effective June 14, 2002. The Ohio Department of Education (ODE) has not approved the School for operations for the July 1, 2002 through June 30, 2003 fiscal year. The ODE discontinued foundation payments to the School in September 2002 and the ODE, State Board of Education, Superintendent of Public Instruction and the Ohio Attorney General have requested through motions filed with the Hamilton County Common Pleas Court that the School stop spending funds advanced from the state, refund July and August 2002 state foundation payments totaling \$588,253, and cease operations. On December 19, 2002, the ODE confirmed the receipt of a refund of \$447,263, and as of that date the School still owed the ODE \$140,990. The School had no authorized operations during the 2002-2003 school year. The ODE has indicated that if the School makes required modifications to the charter, the ODE is willing to work with the School to reinstate operations for the 2003-2004 school year. These conditions raise substantial doubts about the School's ability to continue as a going concern.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 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. That report is 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
Auditor of State

January 13, 2003

**SABIS® INTERNATIONAL SCHOOL OF CINCINNATI
HAMILTON COUNTY**

**BALANCE SHEET
AS OF JUNE 30, 2001**

Assets	
Cash	\$ 70,358
Intergovernmental Receivable	226,510
Total Assets	<u><u>\$ 296,868</u></u>
 Liabilities and Fund Equity	
Liabilities	
Service Provider Payable	\$ 239,958
Intergovernmental Payable	16,750
Total Liabilities	<u>256,708</u>
 Fund Equity	
Retained Earnings	<u>40,160</u>
Total Liabilities and Fund Equity	<u><u>\$ 296,868</u></u>

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

**SABIS® INTERNATIONAL SCHOOL OF CINCINNATI
HAMILTON COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2001**

Operating Revenues	
Foundation Payments	\$ 2,473,593
State Special Education	199,738
Disadvantaged Pupil Impact Aid	495,213
Total Operating Revenues	<u>3,168,544</u>
Operating Expenses	
Purchased services	3,650,722
Other operating expenses	702
Total Operating Expenses	<u>3,651,424</u>
Operating Loss	<u>(482,880)</u>
Non-Operating Revenues	
Federal Grants	464,178
State Grants	58,000
Interest	862
Total Non-Operating Revenues	<u>523,040</u>
Net Income	40,160
Retained Earnings at Beginning of Year	-
Retained Earnings at End of Year	<u><u>\$ 40,160</u></u>

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

**SABIS® INTERNATIONAL SCHOOL OF CINCINNATI
HAMILTON COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2001**

Increase (Decrease) in Cash

Cash Flows From Operating Activities

Cash Received from State of Ohio	\$ 3,185,294
Cash Payments to Suppliers for Goods and Services	<u>(3,411,466)</u>
Net Cash Used for Operating Activities	<u>(226,172)</u>

Cash Flows From Non-Capital Financing Activities

Cash Received from State and Federal Grants	<u>295,668</u>
Net Cash Provided by Non-Capital Financing Activities	295,668

Cash Flows From Investing Activities

Interest	<u>862</u>
Net Cash Provided by Investing Activities	862

Net Increase in Cash 70,358

Cash at Beginning of Year -
Cash at End of Year \$70,358

**Reconciliation of Operating Loss to Net Cash
Used for Operating Activities**

Operating Loss (\$482,880)

**Adjustments to Reconcile Operating Loss to
Net Cash Used for Operating Activities**

Changes in Assets and Liabilities	
Increase in Intergovernmental Payable	16,750
Increase in Service Provider Payable	<u>239,958</u>
Total Adjustments	<u>256,708</u>

Net Cash Used for Operating Activities (\$226,172)

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

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**SABIS® INTERNATIONAL SCHOOL OF CINCINNATI
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Sabis® International School of Cincinnati, Hamilton County, Ohio (the School), is a state 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. 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 School contracts with Cincinnati Education Management LLC (CEM) for its operations and Cincinnati Property Management of Ohio LLC (CPM) for its facilities. See Note 6 for a description of the management agreements. The School was approved for operation under a Community School Contract (Contract) with the Ohio State Board of Education (Sponsor) for a period of five years commencing July 1, 2000 through June 30, 2005. The School began operations on July 1, 2000. The School operates under a self-appointing, multi-member Board of Directors (the Board) which consists of at least three (3) but not more than seven (7) members. The School's Code of Regulations specify that vacancies that arise on the board are filled by the appointment of successors by a majority of the then existing directors. The Board is responsible for carrying out the provisions of the Contract with the Sponsor which includes, but is not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The School has one instructional/support facility staffed by teaching personnel employed by CEM, which provides services to 595 students.

See Note 10 for information on subsequent events and a going concern.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The most significant of the School's accounting policies are described below.

A. BASIS OF PRESENTATION

Enterprise accounting is used to account for those 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 applied to a fund 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. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. 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.

**SABIS® INTERNATIONAL SCHOOL OF CINCINNATI
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. BUDGETARY PROCESS

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

D. CASH

All cash received by the School is maintained in an interest bearing checking account. Total cash for the school is presented as "cash" on the accompanying balance sheet. The school had no investments during the fiscal year.

E. FIXED ASSETS AND DEPRECIATION

The School operates under contracts with CEM and CPM and as such has no fixed assets. See Note 6 for information regarding these contracts.

F. INTERGOVERNMENTAL REVENUES

The School currently participates in the State Foundation Program, State Special Education, and the State Disadvantaged Pupil Impact Aid (DPIA) Program. Revenues received from these programs are recognized as operating revenues 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.

The School also participates in the Federal Charter School Grant Program and the State Charter School Grant Program through the Ohio Department of Education. Under these programs, the School was awarded \$90,000 and \$50,000, respectively, to offset startup costs of the School.

Amounts awarded under the above named programs for the 2001 school year totaled \$3,690,722.

**SABIS® INTERNATIONAL SCHOOL OF CINCINNATI
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. PURCHASED SERVICES

The School forwards all revenue received, except \$40,000 which is retained by the Board for their expenses, to Cincinnati Education Management, LLC (CEM) for the management of the School. The disbursements to CEM are reported as purchased services. See Note 6 for a description of the service provider agreement between the School and CEM.

H. USE OF ESTIMATES

In preparing financial statements, the School is sometimes required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. DEPOSITS

At June 30, 2001, the School had a cash balance of \$70,358, and the bank balance was \$70,358. The bank balance was covered by the Federal Depository Insurance Corporation.

4. SERVICE PROVIDER PAYABLE

A related "Service Provider Payable" has been recorded by the school in the amount of \$239,958. This amount represents funds payable to CEM under the Agreement.

5. RISK MANAGEMENT

Property Liability

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. As part of its net lease with Cincinnati Property Management LLC, the School has agreed to insure the premises in amounts sufficient to cover replacement or full repair and also to pay other insurance required by the landlord's mortgagees, creditors and secured parties. The School has agreed to keep in force a liability insurance policy of not less than \$1,000,000 per person and \$1,000,000 per occurrence for bodily injury. Said policy must cover \$500,000 per occurrence of property damage. Per the Service Provider Agreement, Cincinnati Education Management LLC is responsible for fulfilling these requirements.

Director and Officer

Coverage was purchased by the management company on behalf of the School with an effective date of December 27, 2000. The policy has a \$1,000,000 aggregate limit and a \$5,000 deductible per claim.

**SABIS® INTERNATIONAL SCHOOL OF CINCINNATI
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

6. SERVICE PROVIDER AGREEMENT

**A. CINCINNATI EDUCATION MANAGEMENT, LLC
(An Affiliate Of SABIS® Education Systems, Inc.)**

Effective November 1, 1999, the School entered into a Service Provider Agreement with Cincinnati Education Management LLC (CEM), an education management company. The Agreement is in effect for fifteen (15) years, subject to renewal of the Charter and the provisions of the Ohio Community School Law and any other applicable federal and state laws and regulations. Operating functions of the School have been delegated to CEM.

CEM is accountable to the School's Board of Directors (the "School Board") for the administration, operation, and performance of the School in accordance with the School's contract (Contract) with the Ohio State Board of Education to operate the School. Significant provisions of the Agreement are as follows:

Financial Provisions

Management and License Fees

The Board may set aside \$40,000 for fulfillment of its oversight responsibilities. All other funds are transferred to CEM for management and operations of the School, subject to any terms and conditions attached to grants. The Board also agrees to pay CEM a license fee of six percent of total revenues (less grants and donations secured by the School Board and fees from School programs not managed by CEM) for use of SABIS® Educational Systems' proprietary pedagogical materials and system and a fee for management services of six percent of total revenues (less grants and donations secured by the School Board and fees from School programs not managed by CEM).

Management and license fees are retained by CEM from the funds transferred by the School to CEM. If funds transferred to CEM by the School are not sufficient to cover operating expenses, management and license fees, the shortfall that exists in license and management fees will accrue as a loan from CEM to the School and be repaid in the first subsequent quarter in which sufficient funds are transferred from the School to CEM. At June 30, 2001, the School owed no amounts to CEM related to management and license fees.

Other School Financial Responsibilities

The School is responsible for legal fees for School Board representation and general corporate matters, including professional services not incurred in the normal day-to-day operation of the School.

CEM Financial Responsibilities

Except as otherwise provided in the Agreement, all costs incurred in providing the educational program at the School are to be paid by CEM. Such costs include, but are not limited to, salaries for all personnel, curriculum materials, textbooks, library books, computer and audio visual equipment, software and supplies. All personal property used in the operation of the school is the property of CEM, unless purchased directly by the School or Cincinnati Property Management (CPM).

**SABIS® INTERNATIONAL SCHOOL OF CINCINNATI
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

6. SERVICE PROVIDER AGREEMENT (Continued)

Personnel

CEM has the responsibility and authority to determine staffing levels, and to select, evaluate, assign, discipline, transfer, and terminate personnel, consistent with state and federal law, and the Contract. All school personnel are employees of CEM.

Agreement Termination

The Agreement may be terminated by either party prior to the end of the term by sending written notice by certified mail, return receipt requested, not less than six (6) months prior to the last day of classes in the school year. A termination can be for any reason, or no reason. Except as otherwise required by Ohio Community School Law or applicable laws, a termination shall be effective as of June 30 of the then current school year.

**B. CINCINNATI PROPERTY MANAGEMENT, LLC
(An Affiliate Of SABIS® Education Systems, Inc.)**

Effective September 1, 2000, the School entered into a four (4) year Lease with Cincinnati Property Management, LLC (CPM). The Lease automatically renews for another five (5) years contingent upon renewal of the charter. The School gained access to the property in August 2000 for preparation of the school year without charge.

Financial Provisions

Rent

During the Primary Term (the first four years), the School shall pay CPM annual rent in the sum of \$936,000 payable in monthly installments of \$78,000. The annual rent is subject to change because of changing market conditions or if CPM adds new facilities. Rent payments are made by CEM as their service provider.

Insurance

The School agrees to insure the property. See Note 5.

Repairs

The School shall, at its expense, keep the Premises in a safe and sanitary condition and maintain and repair buildings and associated facilities.

Real Estate Taxes

The School pays all real estate taxes and assessments during the term of the Lease.

**SABIS® INTERNATIONAL SCHOOL OF CINCINNATI
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

7. FEDERAL TAX EXEMPTION STATUS

The School applied for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. The Internal Revenue Service responded August 6, 2001, deferring action until the receipt of further information. On October 9, 2001 the application for tax exemption was withdrawn until such time as the matters in question were investigated. To date no further applications have been submitted. As a result, the School may be subject to federal income tax, the effect of which has not been determined.

8. 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 decision is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...".

The School is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

9. 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, 2001.

B. 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 Sabis® International School is not presently determinable.

C. STATE FUNDING

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency (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 School's review performed in January 2002, for fiscal year end June 30, 2001, revealed that the School was overpaid by \$16,750. This amount is reported as an intergovernmental payable on the balance sheet and was repaid during the 2002 fiscal year.

**SABIS® INTERNATIONAL SCHOOL OF CINCINNATI
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

10. SUBSEQUENT EVENT

The SABIS® International School Board of Directors (School Board) operated the School through the 2002 school year, and provided notice to their service provider, Cincinnati Education Management LLC, a Delaware Limited Liability Company, terminating the operating agreement effective June 14, 2002. The School Board changed the School's name to Learning Opportunities of Greater Cincinnati, Inc. The Ohio Department of Education (ODE) does not believe that the School Board meets the requirements to open a facility, and did not approve the School for operation for the July 1, 2002 through June 30, 2003 fiscal year. The ODE has requested a valid contract from the School Board which includes a modified business plan. The ODE discontinued foundation payments to the School in September 2002 and has requested a refund from the School Board of the July and August 2002 foundation payments totaling \$588,253.

On October 11, 2002, the Ohio State Board of Education, the Ohio Department of Education (ODE) and the Superintendent of Public Instruction filed a temporary restraining order and preliminary injunction for recovery of state funds with the Hamilton County Common Pleas Court to require the School to cease operations, to provide the plaintiffs with a list of students, to stop spending funds advanced to them by the state, and return \$588,253 in funds advanced to them by the state in anticipation that the School would obtain approval for the 2002-2003 school year.

On October 22, 2002 the State Attorney General filed a motion in the Hamilton County Common Pleas Court to issue an Order finding the School in contempt for refusing to allow an inspection of the school required under an earlier court order, and to ensure the security of the \$588,253 in State funds.

On November 8, 2002, the Hamilton County Common Pleas Court ordered the School to cease operations and repay \$588,253 in state funds.

On December 19, 2002, the ODE confirmed the receipt of a \$447,263 refund of the \$588,253 in state funds provided to the School. The ODE stated that although the School had not authorized operations for the 2002-2003 school year, the ODE considered the status of the School to be open and are willing to work with the school to reinitiate operations. However, the ODE had not received the modifications to the School Charter that were required to reinitiate operations. At December 19, 2002, the School still owed the ODE \$140,990 which the ODE indicated should either be repaid or will be withheld from the 2003-2004 school funding should operations be reinitiated.

Management plans to pursue appropriate legal action to resolve the situation.

**SABIS® INTERNATIONAL SCHOOL OF CINCINNATI
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

11. RELATED PARTY TRANSACTIONS

Carol Kerlakian, Ph.D., former President of the Board of SABIS® International School of Cincinnati, who was removed by Board members August 13, 2001, is a cousin to Carl Bistany, the President of SABIS® Education Systems, Inc. and is also related to Ralph Bistany, founder of SABIS® Education Systems, Inc. SABIS® Education Systems, Inc. owns Cincinnati Education Management LLC (CEM), the Delaware Limited Liability company that SABIS® International School of Cincinnati hired as the Service Provider for the school and Cincinnati Property Management of Ohio LLC (CPM), the Delaware limited liability company who is the landlord in the School's lease agreement. The School made \$3,410,763 in cash payments for School operations, management and license fees and facilities as described in Note 6, to Cincinnati Education Management LLC during the year ended June 30, 2001. CEM made the required facilities lease payments to CPM on behalf of the School.

A promissory note dated July 1, 2000, was signed by Carol Kerlakian, Ph.D, and two others who became School Board members April 11, 2001. The note was repaid during the year ended June 30, 2001.



Auditor of State Betty Montgomery

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

SABIS® International School of Cincinnati
Hamilton County
244 Southern Avenue
Cincinnati, Ohio 45219

To the Board of Trustees:

We were engaged to audit the financial statements of SABIS® International School of Cincinnati, Hamilton County, Ohio (the School), as of June 30, 2001, and have issued our report thereon dated January 13, 2003. Our report indicated that because we did not obtain certain representations from the School management, we did not express an opinion on the financial statements. Our report also expresses substantial doubt regarding the School's viability as a going concern and indicates that the School did not obtain an exemption from Federal or Local income taxes and no provision was established for taxes or accrued income taxes at June 30, 2001.

Compliance

As part of our procedures, 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 instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2001-10431-003 and 2001-10431-005.

We also noted certain immaterial instances of noncompliance that we have reported to the management of the School in a separate letter dated January 13, 2003.

Internal Control Over Financial Reporting

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 with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings as items 2001-10431-001 through 2001-10431-005.

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, of the reportable conditions described above, we consider items 2001-10431-001 through 2001-10431-005 to be material weaknesses.

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 January 13, 2003.

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



Betty Montgomery
Auditor of State

January 13, 2003

**SABIS® INTERNATIONAL SCHOOL OF CINCINNATI
HAMILTON COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2001**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2001-10431-001

Material Weakness

Board Oversight – Monitoring Potential Liability

Effective oversight by the Board should include the monitoring of all agreements that may create financial liabilities for which the Board is responsible. These agreements should be reviewed to verify that they are legal and the related financial records should be monitored to determine potential liability.

The Community School Contract, Exhibit 2 provides that, “Any start-up funding needed will be provided through a one-year loan from SABIS®. Start-up funding needs will be low because the School will lease the school facilities and all equipment from SABIS®, so capital expense will be low.” The Board did not monitor these start-up costs and was unable to determine the School’s potential liability. It was not until August 14, 2002, that Cincinnati Education Management LLC (CEM) represented to the Board that the “promissory note expired on its due date of July 16, 2001 without ever having been utilized.”

Also, the Service Provider Agreement, Section 6.3, provides that if funds transferred to CEM by the School are not sufficient to cover operating expenses, management and license fees, the shortfall that exists in management and license fees will accrue as a loan from CEM to the School and be repaid in the first subsequent quarter in which sufficient funds are transferred from the School to CEM. Although no loan existed at June 30, 2001, the Board did not monitor and retain complete and accurate records related to the School’s potential indebtedness to CEM.

Lack of proper monitoring of financial information related to potential debt could result in the School incurring significant amounts of debt without the Board’s knowledge.

We recommend the Board:

- seek legal counsel relating to loan agreements, and
- monitor financial statements on a continuous basis to identify potential indebtedness.

FINDING NUMBER 2001-10431-002

Material Weakness

Board Oversight – Monitoring Controls

The Board is responsible for all aspects of the School, even though the operations of the School are contracted to CEM. Effective management by the Board should include monitoring for compliance with the various aspects of their contract with the sponsor, and monitoring for compliance related to the Board’s Contract with CEM.

The Board did not monitor for compliance with the sponsor or CEM contracts. Because of this lack of oversight, the Board could not determine whether procedures and practices carried out by CEM were in compliance with applicable laws, regulations and contracts. The Board indicated the management company would not provide certain records including financial reports, financial statements and notes, and the insurance policy. These records would allow the Board to monitor the financial position and operations of the School more effectively.

FINDING NUMBER 2001-10431-002
(Continued)

The Community School Contract, Section B, Financial Plan, states that the Board shall maintain financial records of the School in the same manner as are financial records of school districts. Although the School contracted with CEM to assist it with carrying out its administrative, financial, and operational duties, there is no evidence that the Board monitored the preparation and maintenance of such records.

Exhibit 2 of the Community School Contract provides that budgets will be reviewed by the Finance Committee of the Board on a quarterly basis and adjusted as necessary. Exhibit 3 of the Community School Contract requires the Finance Committee to review, approve and monitor budgets. The minutes did not document a quarterly review of the budget by a Finance Committee. The Board did approve "Quarterly Financial Activity Reports" provided by the business manager, an employee of the management company, at three Board meetings. These quarterly reports do not correspond with the related financial statement and contained errors and discrepancies including, but not limited to:

- The quarterly report through December 31, 2000's "Cumulative Closing Balance" is recorded as \$158,194. January of the next quarterly report has a beginning balance of \$129,169, or \$29,025 less than the closing balance in December. This error is carried forward for the remaining months through June of 2001.
- Foundation revenue from the Board, for the months of October of 2000 and April of 2001 do not agree with the amounts confirmed as received or the amounts deposited in the School's bank account. The net difference is \$6,742 with the larger amount reflected on the quarterly report.
- The quarterly report does not include \$125,859 in confirmed revenue which was deposited in the School's bank account.
- The quarterly reports include income from extended day and other programs which are not included on the School's financial statements. This money was not deposited in the School's account, but was deposited directly with the management company.
- The reports also include advances to the school from Cincinnati Education Management, LLC and repayments to SABIS® Education Systems which are not included on the financial statements.
- The reports do not include liabilities for the management fees, license fees, facility lease and cost of books not yet paid.
- These quarterly reports also do not include the same line items as the Financial Plan – Schedule A, Five Year Budget. It is not possible to compare the line items on one report to the other in a meaningful way.

These "Quarterly Financial Activity Reports" do not provide the Board with accurate and complete information to effectively monitor the Budget.

The Service Provider Agreement states that "major decisions" as defined in the agreement, shall require the approval of the Board. One "major decision" defined in the agreement was "taking any action which would cause the School to deviate by more than ten percent from the aggregate amount of expenses contained in the Budget". The Board indicated that CEM did not provide adequate and complete documentation to determine whether any budgets have been adhered to.

Failure to monitor the contracts, regulations, and agreement requirements could increase the risk of material noncompliance, material misstatements of the financials, and the loss of their charter. The Board should address areas of responsibility in their quarterly meetings and document all official proceedings and actions by the Board.

FINDING NUMBER 2001-10431-002
(Continued)

We recommend the Board implement a monitoring system to reduce the risk of material misstatements to the financial statement and noncompliance with applicable laws and regulations. Monitoring controls are comprised of regular management and supervisory activities established to determine whether the Board's objectives are being achieved. These controls should address operations, legal compliance, and financial control objectives. Effective monitoring controls should identify unexpected results or exceptions (including significant compliance exceptions) and allow the Board to investigate underlying causes and take corrective action. We also recommend the Board request and maintain applicable School documents to aid them in monitoring all areas that they are legally responsible for and dispose of items only with the proper approvals.

FINDING NUMBER 2001-10431-003

Material Noncompliance/Material Weakness

Board Minutes and Contractual Agreements

When read together, Ohio Rev. Code, Sections 121.22 and 149.43, impose a duty on the school to maintain a full and accurate record of their proceedings. See, White v. Clinton Cty. Bd. Of Commrs., 76 Ohio St.3d 416 (1996). Minutes of meetings must be promptly recorded and open for public inspection. State, ex rel. The Fairfield Leader v. Ricketts, 56 Ohio St.3d 97 (1990).

The Board minutes from October of 2000, and February, April, June, July, August and November of 2001 did not document all of its official actions. Most responsibilities of the Board are defined in the Ohio Revised Code, the Board's Code of Regulations, the Community School Contract between the Ohio State Board of Education and the governing authority of SABIS® International School of Cincinnati, the Service Provider Agreement and the Lease. The minutes do not document actions taken by the Board to fulfill these responsibilities.

1. Exhibit 3 of the Community School Contract provides that:

- The Board was to determine the date, time and place for the Annual Meeting and the regular meetings at the first Board meeting.
- At the Annual meeting the Board was to elect officers.
- The initial directors of the Board were to be appointed by resolution of the Board and would consist of a President, Vice President/Secretary, and Treasurer.
- The Board was to have two standing committees: a Finance Committee and an Accountability Committee appointed at the Annual meeting.
- The School was to be governed by the Board.

The minutes of the first meeting did not include the scheduling of the annual or regular meetings. There was also no evidence of an annual meeting or the appointment of the initial or subsequent directors of the Board and committees.

**FINDING NUMBER 2001-10431-003
(Continued)**

2. Although the School contracted with CEM to assist it with carrying out its administrative, financial, and operational duties, there is only one resolution authorizing/approving actions of the Service Provider on behalf of the School was approved by the Board during the audit period.
3. Per the Service Provider Agreement, the Service Provider is to prepare an "Annual Budget" broken down by quarters, for approval by the Board. No Annual Budget was approved in the minutes for the period under audit. An Annual Budget was approved in the Community School Contract.
4. The minutes did not document that the Board approved the Service Provider Agreement, the Lease with Cincinnati Property Management of Ohio LLC, loans from the management company and the application for tax exempt status. These documents were signed only by the former Board President.

The minutes of the Board should include the following information:

- Minute proceedings, including all attachments, should be recorded on numbered pages and placed into a bound book to ensure their completeness and prohibit changes;
- Proceedings should be read aloud and approved by a vote of the meeting body at the subsequent meeting to verify their accuracy and authenticity;
- Budgets, spending plans and financial reports should be submitted to and approved by the Board at each quarterly meeting. These reports should be thoroughly reviewed by the Board and discrepancies resolved in a satisfactory manner.
- All official actions should be voted on by the Board and the vote should be documented;
- Minutes should state the type of meeting held.

FINDING NUMBER 2001-10431-004

Reportable Condition

Bank Signature Cards

The Board did not maintain on file signature cards for their bank account to document the person(s) who are authorized to conduct business and sign checks for the account. The Board did not present this information for audit. Failure to maintain and update this information for the current authorized persons, could result in unauthorized transactions for the account, and a possible risk of financial loss. The Board should maintain updated signature cards for their bank account(s), and update them whenever there is a change in authorized users.

FINDING NUMBER 2001-10431-005

Material Noncompliance/Material Weakness

Ohio Admin. Code, Section 117-2-03, and Ohio Rev. Code, Section 117.38, require that community schools file annual financial statements prepared in accordance with generally accepted accounting principles (GAAP) basis within 150 days of year end, unless a waiver has been granted by the Auditor of State. The School did not file GAAP financial statements with the Auditor of State by the required deadline nor were they granted a waiver by the Auditor of State. Due to the lack of GAAP financial statements, the Auditor of State issued an unauditible letter to the School requiring them to prepare these statements within 90 days of receipt. The Auditor of State's office provided additional accounting services to assist in the preparation of these financial statements and footnotes.

The School should review their current procedures and available resources to assure that GAAP financial statements and footnotes can be prepared and filed with the Auditor of State within 150 days of year end.



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SABIS INTERNATIONAL SCHOOL OF CINCINNATI

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
AUGUST 28, 2003**