OAK TREE MONTESSORI, INC.
HAMILTON COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2003

Auditor of State
Betty Montgomery

OAK TREE MONTESSORI, INC.
HAMILTON COUNTY

TABLE OF CONTENTS

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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, 2003 and 2002, 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, 2003 and 2002, and the results of its operations and the cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 27, 2004, 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, 2003. We previously 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. 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

July 27, 2004

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OAK TREE MONTESSORI, INC.
HAMILTON COUNTY

BALANCE SHEET
AS OF JUNE 30, 2003 AND 2002

		2003	2002
Assets:			
Current Assets			
	Cash	$ 9,185	$ 23,473
	Accounts Receivable (net of uncollectibles)	29,873	34,850
	Intergovernmental Receivable	-	25,964
	Total Current Assets	39,058	84,287
Noncurrent Assets			
	Fixed Assets:		
	Furniture & Equipment	27,434	27,434
	Leasehold Improvements	28,117	28,117
	Less: Accumulated Depreciation	(28,459)	(17,349)
	Net Fixed Assets	27,092	38,202
	Other Assets - Deposit	10,000	10,000
	Total Noncurrent Assets	37,092	48,202
Total Assets		$ 76,150	$ 132,489
Liabilities & Fund Equity:			
Current Liabilities			
	Accounts Payable	$ 18,719	28,242
	Accrued Wages	37,000	35,239
	Deferred Revenues	-	2,635
	Intergovernmental Payable	23,366	11,457
	Total Current Liabilities	79,085	77,573
Long-term Liabilities			
	Loan Payable	30,675	30,675
	Compensated Absences Payable	6,000	5,096
	Payroll Taxes Withheld	61,700	-
	Total Long-term Liabilities	98,375	35,771
Total Liabilities		177,460	113,344
Fund Equity			
	Contributed Capital	9,570	9,570
	Retained Earnings/(Deficit):		
	Unreserved	(110,880)	9,575
Total Fund Equity (Deficit)		(101,310)	19,145
Total Liabilities & Fund Equity		$ 76,150	$ 132,489

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

OAK TREE MONTESSORI, INC.
HAMILTON COUNTY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY (DEFICIT)
FISCAL YEARS ENDED JUNE 30, 2003 AND 2002

	2003	2002
Operating Revenues:		
Charges for Services	$249,830	$256,318
Food Service	10,720	4,147
Foundation Payments	406,269	363,097
Disadvantaged Pupil Impact Aid	79,451	80,099
State Specical Education Program	33,758	24,499
Other	3,296	12,846
Total Operating Revenues	783,324	741,006
Operating Expenses:		
Salaries	426,192	476,393
Fringe Benefits	156,240	120,557
Purchased Services	253,131	196,465
Supplies & Materials	29,772	78,108
Depreciation	11,110	8,767
Food Service Operations	38,650	24,077
Other	22,692	10,731
Total Operating Expenses	937,787	915,098
Operating Loss	(154,463)	(174,092)
Non-operating Revenues:		
Other State Grants	5,000	25,711
Federal Grants	21,624	150,000
Contributions	7,384	15,650
Total Non-operating Revenues	34,008	191,361
Net Income/(loss)	(120,455)	17,269
Retained Earnings at Beginning of Year	9,575	(7,694)
Retained Earnings (Deficit) at End of Year	(110,880)	9,575
Contributed Capital at Beginning of Year	9,570	9,570
Contributed Capital at End of Year	9,570	9,570
Total Fund Equity (Deficit) at End of Year	($101,310)	$19,145

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

OAK TREE MONTESSORI, INC.
HAMILTON COUNTY

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002

	2003	2002
Cash Flows from Operating Activities:		
Operating Loss	($154,463)	($174,092)
Adjustments to Reconcile Operating Loss to Net Cash used by Operating Activities:		
Depreciation	11,110	8,767
Change in Prepaid Rent		2,550
Change in Deposit		(10,000)
Change in Accounts Receivable	4,977	(6,227)
Change in Intergovernmental Receivable	25,964	(25,964)
Change in Accounts Payable	(9,523)	24,640
Change in Accrued Wages	1,761	2,533
Change in Compensated Absences	904	2,242
Change in Intergovernmental Payable	21,992	(2,371)
Change in Payroll Taxes Withheld	51,617	0
Change in Deferred Revenue	(2,635)	(2,313)
Net Cash used by Operating Activities	(48,296)	(180,235)
Cash Flows from Noncapital Financing Activities:		
Federal and State Grants	26,624	175,711
Loan	0	32,000
Loan Repayments	0	(1,325)
Contributions	7,384	15,650
Net Cash provided by Noncapital Financing Activities	34,008	222,036
Cash Flows from Capital and Related Financing Activities:		
Acquisition of Capital Assets	0	(38,882)
Net Cash Used by Capital and Related Financing Activities	0	(38,882)
Net Change in Cash	(14,288)	2,919
Cash Beginning of the Year	23,473	20,554
Cash End of the Year	**$9,185**	**$23,473**

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

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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 educational and teaching services and 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

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

Cash received by the School is kept in either a checking or savings account. The general checking account is used for the charter school, preschool program, infant daycare, and after-school care program.

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.

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, 2003, the carrying amount of the School's deposits was $9,185 and the bank balance was $15,550, which was covered by federal depository insurance.

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.

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 School's Executive Director. As of the June 30, 2003 and 2002, the balance outstanding was $30,675. During the fiscal year ended June 30, 2003, the School did not make any required payments on the loan.

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, 2003:

Year Ending June 30	
2004	$ 164,748
2005	177,750
2006	187,497
2007	47,499
Minimum lease payments	$ 577,494

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, 2003, 2002 and 2001 were approximately $37,000, $30,000 and $22,000, respectively.

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.

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

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

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, 2003, 2002 and 2001 were approximately $25,000, $35,000 and $32,000, respectively.

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, 2003 and 2002, the board allocated employer contributions equal to 4.5% of covered payroll to the Health Care Reserve Fund. For the School, this amount was approximately $11,000 in both the 2003 and 2002 fiscal years. STRS pays health care benefits from the Health Care Reserve Fund. The balance in the fund was $3.011 billion at June 30, 2002. For the year ended June 30, 2002, net health care costs paid by STRS were $354.7 million and STRS had 105,300 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 2003 and 2002 fiscal years, employer contributions to fund health care benefits were 8.54% and 9.80%, 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 2003 and 2002, 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, 2002 were $182.9 million and the target level was $242.2 million. At June 30, 2002, SERS' net assets available for payment of health care benefits was $335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits. For the School, this amount equaled approximately $18,000 and $21,000, respectively, during the 2003 and 2002 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 2003 and 2002, 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 system 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 District is currently unable to determine what effect, if any, this decision will have on its future State funding and on 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, 2003.

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.

Penalties & Interest on Payroll Taxes Withheld

As explained in NOTE 13 below, as of June 30, 2003, the School failed to remit certain federal employment taxes and federal, state, and local income taxes withheld from employees' earnings. A liability for "Payroll Taxes Withheld" is reported on the accompanying Balance Sheet. Penalties and interest associated with any untimely payments could become a liability to the School.

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 $54,000 and 53,000 annually for the years ended June 30, 2003 and 2002, respectively.

NOTE 13 – MATERIAL NONCOMPLIANCE

As of June 30, 2003, the School failed to remit certain federal employment taxes and federal, state, and local income taxes withheld from employee's earnings. The liability for these amounts is reported as a "Payroll Taxes Withheld" on the accompanying Balance Sheet.

NOTE 14 – MANAGEMENT PLAN'S REGARDING ACCUMULATED DEFICIT

Management has considered its Accumulated Deficit at June 30, 2003, and plans to reduce the deficit through various courses of action which will affect revenues and expenses. Plans to increase revenues include: (1) increasing enrollment in the preschool, infant daycare, and after-school care programs; and (2) more aggressive efforts to obtain additional grants from other governments and private sources. In fiscal year 2004, the School was successful in obtaining increased federal funding for Title I projects.

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, 2003, and have issued our report thereon dated July 27, 2004. 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 instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2003-001 through 2003-003.

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 2003-001 through 2003-004.

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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. However, we believe that none of the reportable conditions described above are not 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 July 27, 2004.

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

July 27, 2004

SCHEDULE OF FINDINGS
JUNE 30, 2003

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

FINDING NUMBER 2003-001

Noncompliance/Reportable Condition

Monitoring controls over the payroll cycle did not include procedures which would enable management to detect that federal income tax and other federal employment related taxes had not been remitted to the U.S. Treasury in a timely manner.

Sections 3401 through 3406 and Section 3102(a) of Chapter 26 of the Internal Revenue Code (IRC), require employers to withhold federal income taxes and employment related taxes (such as Medicare) from employees' earnings and to remit the withholdings to the U.S. Treasury in a timely manner. During the period from September 30, 2002 through June 30, 2003, the School withheld federal income taxes and related taxes from employees' earnings but, due to a change in payroll processing procedures, failed to remit approximately $45,600 to the U.S. Treasury. In May of 2004, the School notified the IRS in writing of this issue and is presently working with IRS to take all necessary corrective actions.

We recommend that management review its procedures for monitoring of payroll cycle activity to assure that procedures include the performance of regular review and approval of all payroll activity. Monitoring controls over payroll activity should include procedures to determine that payroll is properly recorded and to assure that the School is in compliance with all regulations governing the withholding and remitting of taxes.

FINDING NUMBER 2003-002

Noncompliance/Reportable Condition

Monitoring controls over the payroll cycle did not include procedures which would enable management to detect that state income taxes had not been remitted to the State of Ohio in a timely manner.

Ohio Rev. Code, Section 5747.06, requires employers to withhold state income taxes from employees' earnings and to remit such withholdings to the State Treasurer in a timely manner. During the period from September 30, 2002 through June 30, 2003, the School withheld state income taxes from employees' earnings but, due to a change in payroll processing procedures, failed to remit approximately $9,120 to the State. School management has stated that it intends to contact the State of Ohio Income Tax Commissioner to resolve this issue and will take all necessary corrective actions.

We recommend that management review its procedures for monitoring of payroll cycle activity to assure that procedures include the performance of regular review and approval of all payroll activity. Monitoring controls over payroll activity should include procedures to determine that payroll is properly recorded and to assure that the School is in compliance with all regulations governing the withholding and remitting of taxes.

FINDING NUMBER 2003-003

Noncompliance/Reportable Condition

Monitoring controls over the payroll cycle did not include procedures which would enable management to detect that city income taxes had not been remitted to the City of Cincinnati in a timely manner.

Regulation 311-31 of Chapter 311 of the Income Tax Ordinance, adopted under the Authority of Section 311-53 of Volume III of the Cincinnati Municipal Code, requires employers to withhold city income taxes from employees' earnings and to remit such withholdings to the City of Cincinnati within the time periods designated by the Regulation(s). During the period from September 30, 2002 through June 30, 2003, the School withheld city income taxes from employees' earnings but, due to a change in payroll processing procedures, failed to remit approximately $8,200 to the City. School management has stated that it intends to contact the City of Cincinnati Income Tax Commissioner to resolve this issue and will take all necessary corrective actions.

We recommend that management review its procedures for monitoring of payroll cycle activity to assure that procedures include the performance of regular review and approval of all payroll activity. Monitoring controls over payroll activity should include procedures to determine that payroll is properly recorded and to assure that the School is in compliance with all regulations governing the withholding and remitting of taxes.

FINDING NUMBER 2003-004

Reportable Condition

The monthly bank reconciliation is an important management tool for explaining differences between the cash bank balance and the book balance and assists in the detection of errors, irregularities, and improper or incorrect postings to the accounting records. In order to ensure that the reconciliation is accurate, complete, and properly reconciled to the accounting records, it should be prepared on a timely basis and all related supporting documentation for bank balances and reconciling items should be retained. In addition, the reconciliation should be reviewed and approved in writing by management.

The School's cash reconciliation for June 30, 2003 was originally prepared in August of 2003 by the School's Office Manager and Accountant, but it was unintentionally misplaced and no copies had been retained. Therefore, the bank reconciliation had to be reconstructed and was finalized in March of 2004. During our examination of the June 30, 2003 reconciliation, we noted that the reconciled balance stated on the bank reconciliation varied by an insignificant amount from the cash balance reported on the Balance Sheet as of June 30, 2003. Also, the bank reconciliation contained a few reconciling items of insignificant amounts which could not be explained by management.

We recommend that the School exercise due care in preparing and safeguarding the monthly bank reconciliation form and all related supporting documentation. 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 also 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.

OAK TREE MONTESSORI, INC.
HAMILTON COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2002

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2002-001	As of April 3, 2003, the School was not fully compliant with the provisions of Ohio Rev. Code, Sections 33.14(10)(A)(2), 3309.23, 3309.341, 3309.47 and 3390.49, due to its failure to remit $6,282 of employee retirement system withholdings to the School Employees Retirement System (SERS).	Fully Corrected	
2002-002	Reportable Condition - The June 30, 2002 bank reconciliation contained an unexplained difference of $567.36 between the reconciled balance on the bank reconciliation and cash reported on the June 30, 2002 Balance Sheet. Bank reconciliations prepared for the months subsequent to June 30, 2002 did not agree to the accounting records and contained misstated amounts.	Partially Corrected	Bank reconciliations for the months subsequent to June 30, 2002 were corrected. A Reportable Condition has been repeated for the current audit period due to an unexplained difference on the June 30, 2003 bank reconciliation and due to the failure to properly safeguard the bank reconciliation and related supporting documentation at the time of its original preparation in August of 2003.
2002-003	Reportable Condition - Tuition and lunch receipts were sometimes placed in the Petty Cash Fund and/or were used to replenish Petty Cash. Petty Cash records for the months subsequent to June 30, 2002 were not reconciled.	Partially Corrected	Tuition and lunch receipts are rarely placed in the Petty Cash Fund and are not used to replenish Petty Cash. Petty Cash reconciliations are prepared in a more timely manner. A management letter comment has been made for the current audit period.

2002-004	Reportable Condition/Material Weakness – Accounts Receivable at June 30, 2002 contained numerous balances that were uncollectible. There were no procedures and policies for the timely monitoring and write-off of Accounts Receivable.	Fully Corrected	

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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
AUGUST 31, 2004