# OAK TREE MONTESSORI, INC.
# HAMILTON COUNTY

## REGULAR AUDIT

## FOR THE YEAR ENDED JUNE 30, 2004

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 were engaged to audit the accompanying financial statements of Oak Tree Montessori, Inc., Hamilton County, Ohio (the School), as of and for the year ended June 30, 2004. These financial statements are the responsibility of the School's management.

On October 21, 2005, the School officially closed due to fiscal distress. After the date of closing, School personnel and officials were unavailable and we were therefore unable to obtain certain documents, records and financial reports from the accounting system which were necessary to complete an audit following generally accepted auditing standards and the standards for financial audits contained in Government Auditing Standards, issued by the Comptroller General of the Unites States. Also, we were unable to obtain financial statements that were adjusted for material differences noted during testing and we were unable to obtain a discussion or evaluation from the School's outside legal counsel of any pending or threatened litigation. We were also unable to obtain a written management representation letter which would formally acknowledge management's responsibility for preparing financial statements in accordance with generally accepted accounting principles.

Because of the significance of the matters discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, and opinion on the financial statements referred to in the first paragraph.

Betty Montgomery

**Betty Montgomery**
Auditor of State

March 27, 2006

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## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

The discussion and analysis of Oaks Tree Montessori, Inc.'s (the School) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented, and is presented in the MD&A.

### Financial Highlights

Key financial highlights for fiscal year 2004 are as follows:

- The assets of the School exceeded its liabilities at year-end by $34,699. Of this amount, $16,802 may be used to meet the School's ongoing obligations to citizens and creditors.
- In total, net assets increased by $136,009.
- Total assets increased by approximately $92,000 which represents an 8% increase from the prior year. The increase is primarily due to increases in cash held by the School.

### Using this Financial Report

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

**OAK TREE MONTESSORI, INC.**
Management Discussion and Analysis
June 30, 2004
Unaudited

*Statement of Net Assets*

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

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

The following table presents a condensed summary of the School's overall financial position at June 30, 2004 and June 30, 2003:

| | | 2004 | 2003 |
|---|---|---|---|
| Current and other assets | $ | 128,131 | 49,058 |
| Capital assets | | 17,897 | 27,092 |
| Total assets | | 146,028 | 76,150 |
| Current liabilities | | 111,329 | 146,785 |
| Long-term liabilities | | - | 30,675 |
| Total liabilities | | 111,329 | 177,460 |
| Net assets: | | | |
| Invested in capital assets, net of debt | | 17,897 | 27,092 |
| Unrestricted | | 16,802 | (128,402) |
| Total net assets | $ | 34,699 | (101,310) |

The School kept enrollment up in the daycare which meant an increase in receivables, and was getting stricter with parents to pay their bills, including late fees. For long-term liabilities, a loan to the School was forgiven.

**OAK TREE MONTESSORI, INC.**
Management Discussion and Analysis
June 30, 2004
Unaudited

*Statement of Revenues, Expenses and Changes in Net Assets*

The following table presents a condensed summary of the School's activities for the years ended June 30, 2004 and 2003:

| | | 2004 | 2003 |
|---|---|---|---|
| **Revenues:** | | | |
| Operating revenues: | | | |
| State Foundation | $ | 435,016 | 440,027 |
| DPIA | | 81,040 | 79,451 |
| Charges for services | | 282,621 | 260,550 |
| Other operating revenues | | 14,085 | 3,296 |
| Non-operating revenues: | | | |
| Federal grants | | 195,786 | 21,624 |
| State grants | | 8,561 | 5,000 |
| Contributions | | 30,675 | 7,384 |
| **Total revenues** | | 1,047,784 | 817,332 |
| **Expenses:** | | | |
| Operating expenses: | | | |
| Salaries and wages | | 459,176 | 426,192 |
| Fringe benefits | | 65,949 | 156,240 |
| Purchased services: | | | |
| Professional and technical services | | 47,721 | 52,441 |
| Property services | | 152,881 | 168,004 |
| Communications | | 4,593 | 5,047 |
| Utilities | | 25,151 | 27,639 |
| Food services | | 6,569 | 38,650 |
| Materials and supplies | | 27,979 | 29,772 |
| Depreciation | | 9,195 | 11,110 |
| Other expenses | | 112,561 | 22,692 |
| **Total expenses** | | 911,775 | 937,787 |
| **Change in net assets** | $ | 136,009 | (120,455) |

Improved financial results in 2004 were primarily related to the increase in federal grant funding. In addition, tighter spending policies resulted in nearly a 3% reduction in expenses.

**Capital Assets**

At June 30, 2004, the School had $17,897 invested in a broad range of capital assets, including leasehold improvements, furniture and equipment.

**Capital Assets at Year-End (Net of Depreciation)**

| | | 2004 | 2003 |
|---|---|---|---|
| Leasehold improvements | $ | 13,591 | 19,214 |
| Equipment and furniture | | 4,306 | 7,878 |
| Total | $ | 17,897 | 27,092 |

The decrease of $9,195 in capital assets results from recognizing current year depreciation.

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

**Debt**

In a prior fiscal year, the School had borrowed $32,000 from its Executive Director. During the year ended June 30, 2004, the outstanding balance of $30,675 was forgiven as a contribution to the School.

**Contacting the School**

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

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

**OAK TREE MONTESSORI, INC.**
Statement of Net Assets
June 30, 2004

| | | |
|---|---|---|
| **Assets:** | | |
| Current assets: | | |
| Accounts receivable | $ | 110,606 |
| Intergovernmental receivable | | 7,525 |
| Total current assets | | 118,131 |
| Noncurrent assets: | | |
| Security deposit | | 10,000 |
| Capital assets, net | | 17,897 |
| Total noncurrent assets | | 27,897 |
| **Total assets** | | 146,028 |
| **Liabilities:** | | |
| Current liabilities: | | |
| Overdrawn checking account | | 10,389 |
| Accounts payable | | 10,940 |
| Accrued wages and benefits | | 29,000 |
| Intergovernmental payable | | 55,000 |
| Compensated absences payable | | 6,000 |
| Total current liabilities | | 111,329 |
| **Net Assets:** | | |
| Invested in capital assets, net of related debt | | 17,897 |
| Unrestricted | | 16,802 |
| **Total net assets** | $ | 34,699 |

See accompanying notes to the basic financial statements.

**OAK TREE MONTESSORI, INC.**
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2004

| | | |
|---|---|---|
| **Operating revenues:** | | |
| State Foundation | $ | 435,016 |
| Disadvantaged pupil impact aid | | 81,040 |
| Charges for services | | 282,621 |
| Other operating revenues | | 14,085 |
| **Total operating revenues** | | 812,762 |
| **Operating expenses:** | | |
| Salaries and wages | | 459,176 |
| Fringe benefits | | 65,949 |
| Purchased services: | | |
| Professional and technical services | | 47,721 |
| Property services | | 152,881 |
| Communications | | 4,593 |
| Utilities | | 25,151 |
| Food services | | 6,569 |
| Materials and supplies | | 27,979 |
| Depreciation | | 9,195 |
| Other expenses | | 112,561 |
| **Total operating expenses** | | 911,775 |
| Operating income (loss) | | (99,013) |
| **Nonoperating revenues:** | | |
| Federal grants | | 195,786 |
| State grants | | 8,561 |
| Contributions | | 30,675 |
| **Total nonoperating revenues** | | 235,022 |
| Net change in net assets | | 136,009 |
| Net assets, beginning of year | | (101,310) |
| Net assets, end of year | $ | 34,699 |

See accompanying notes to the basic financial statements.

**OAK TREE MONTESSORI, INC.**
Statement of Cash Flows
Year Ended June 30, 2004

| | | |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Cash received from State of Ohio - Foundation | $ | 435,016 |
| Cash received from State of Ohio - DPIA | | 81,040 |
| Cash received from customers | | 201,888 |
| Cash received from other operating sources | | 14,085 |
| Cash payments for personal services | | (533,125) |
| Cash payments for contract services | | (236,915) |
| Cash payments for supplies and materials | | (27,979) |
| Cash payments for other expenses | | (150,406) |
| Net cash used by operating activities | | (216,396) |
| **Cash flows from noncapital financing activities:** | | |
| Cash received from state and federal grants | | 196,822 |
| Net change in cash | | (19,574) |
| Cash at beginning of year | | 9,185 |
| Overdrawn checking account at end of year | $ | (10,389) |

Reconciliation of operating loss to net cash used by operating activities:

| | | |
|---|---|---|
| Operating loss | | (99,013) |
| Adjustments to reconcile operating loss to net cash used by operating activities: | | |
| Depreciation | | 9,195 |
| Changes in assets and liabilities: | | |
| Accounts receivable | | (80,733) |
| Accounts payable | | (7,779) |
| Accrued wages and benefits | | (8,000) |
| Intergovernmental payable | | (30,066) |
| Net cash used by operating activities | $ | (216,396) |

See accompanying notes to the basic financial statements.

## 1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

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

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

The School operates under a seven-member Board of Trustees that is selected by a vote of 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 and toddler daycare, summer camp, before care and aftercare programs. The preschool, infant and toddler daycare, summer camp, before care and aftercare programs are not operated under the school charter. However, School employees staffed these programs which are funded by charges for services and thus, these programs are presented in the financial statements.

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

## A. BASIS OF PRESENTATION

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

## B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The accounting and financial reporting treatment is determined by measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The difference between total assets and liabilities is defined as net assets. The statement of revenues, expenses and changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

## C. BUDGETARY PROCESS

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code, Chapter 5705, unless specifically provided in a school's contract with its sponsor.

## D. CASH

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

## E. CAPITAL ASSETS AND DEPRECIATION

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market value as of the date received. The School maintains a capitalization threshold of $1,000. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's life are expensed.

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

## F. INTERGOVERNMENTAL REVENUES

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

Federal and state grants are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

## G. ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from these estimates.

## H. COMPENSATED ABSENCES

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

### I. NET ASSETS

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

### J. CHARGES FOR SERVICES

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

## 3. CHANGE IN ACCOUNTING PRINCIPLES

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

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

## 4. DEPOSITS

At June 30, 2004, the School had a cash balance of -$10,389. The bank balance was $16,631, of which $16,631 was covered through the Federal Depository Insurance Corporation (FDIC).

## 5. INTERGOVERNMENTAL RECEIVABLES

Intergovernmental Receivables at June 30, 2004, consisted of intergovernmental grants. All intergovernmental receivables are considered collectible in full given the stable condition of State programs and the current fiscal year guarantee of federal funds. The principal items of intergovernmental receivables as of June 30, 2004 are as follows:

| | | |
|---|---|---|
| School Lunch Program | $ | 3,756 |
| Title II-A | | 3,769 |
| | $ | 7,525 |

## 6. CAPITAL ASSETS

A summary of the capital assets as of June 30, 2004, is as follows:

| | | Balance 7/1/03 | Additions | Disposals | Balance 6/30/04 |
|---|---|---|---|---|---|
| Leasehold improvements | $ | 28,117 | - | - | 28,117 |
| Equipment and furniture | | 27,434 | - | - | 27,434 |
| Totals at historical cost | | 55,551 | - | - | 55,551 |
| Less accumulated depreciation: | | | | | |
| Leasehold improvements | | 8,903 | 5,623 | - | 14,526 |
| Equipment and furniture | | 19,556 | 3,572 | - | 23,128 |
| Total accumulated depreciation | | 28,459 | 9,195 | - | 37,654 |
| Capital assets, net | $ | 27,092 | (9,195) | - | 17,897 |

## 7. 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. During the year ended June 30, 2004, the outstanding loan balance of $30,675 was forgiven as a contribution to the School.

## 8. RISK MANAGEMENT

The School is exposed to various risks related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2004, the School contracted with a commercial insurance carrier to address these risks. There has been no reduction in coverage from the prior year and settled claims have not exceeded the School's coverage in any of the past three years.

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

## 9. DEFINED BENEFIT PENSION PLANS

### *A. School Employees Retirement System*

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

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate that is currently 14 percent of covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were approximately $42,000, $30,000 and $30,000, respectively; 100% percent has been contributed for all three fiscal years.

### *B. State Teachers Retirement System*

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

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

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries and the School was required to contribute 14 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations for the fiscal years ended June 30, 2004, 2003 and 2002, were approximately $22,000, $35,000, and $35,000, respectively; 100% percent has been contributed for all three fiscal years.

## 10. POST EMPLOYMENT BENEFITS

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the year ended June 30, 2004, the board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund. For the School, this amount was approximately $2,000 during fiscal year 2004.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the fund was $3.1 billion at June 30, 2004. For the year ended June 30, 2004, net health care costs paid by STRS were $268.7 million and STRS had 111,853 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 5.83 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at $24,500. For the School, the amount to fund health care benefits, including surcharge, was approximately $15,000 during the 2004 fiscal year.

The surcharge added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004 were $223.4 million and the target level was $335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefit of $300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

## 11. OTHER EMPLOYEE BENEFITS

### A. Compensated Absences

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

### B. Life Insurance

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

## 12. 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, 2004:

| Year Ended June 30 | | |
|---|---|---|
| 2005 | $ | 176,250 |
| 2006 | | 185,831 |
| 2007 | | 79,165 |
| | $ | 441,246 |

## 13. 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, 2004.

### B. State Funding

The Ohio Department of Education conducts reviews of enrollment data and FTE calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The results of this review could result in state funding being adjusted. This information was not available as of the date of this report. The School does not anticipate any material adjustments to state funding for fiscal year 2005, as a result of such review.

### C. Pending Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. The effect of this suit, if any, on School is not presently determinable.

## 14. STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "…the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient…" The School is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

## 15. RELATED PARTY

The Executive Director of the School is a family member of two Board members of the School. The authorized contract amount for the position was $54,000 annually for the year ended June 30, 2004.

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**Auditor of State**
**Betty Montgomery**

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

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

To the Board of Trustees:

We were engaged to audit the financial statements of Oak Tree Montessori, Inc., Hamilton County, Ohio (the School), as of and for the year ended June 30, 2004, and have issued our report thereon dated March 27, 2006, wherein we noted that we were unable to issue an opinion on the financial statements due to an inability to obtain certain documents, records, and financial reports which were necessary to complete an audit following generally accepted auditing standards and the standards for financial audits contained in Government Auditing Standards, issued by the Comptroller General of the Unites States. We also noted an inability to obtain financial statements that were adjusted for material differences noted during testing and an inability to obtain a discussion or evaluation of any pending or threatened litigation from the School's outside legal counsel.

**Internal Control Over Financial Reporting**

In attempting to plan and perform our audit, we considered the School's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider 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 management's assertions in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2004-001 through 2004-007.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we were engaged to audit may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider items 2004-001 through 2004-003 to be material weaknesses.

**Compliance and Other Matters**

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance we must report under *Government Auditing Standards,* which are described in the accompanying Schedule of Findings as Item 2004-005 through 2004-007.

This report is intended for the information and use of 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

March 27, 2006

**OAK TREE MONTESSORI, INC.**
**HAMILTON COUNTY**

**SCHEDULE OF FINDINGS**
**FOR THE YEAR ENDED JUNE 30, 2004**

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

**FINDING NUMBER 2004-001**

**Material Weakness**

Monthly Bank Reconciliations

The monthly bank reconciliation is an important management tool for explaining differences between the cash bank balance and the accounting system book balance and assists in the 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 by competent and adequately trained personnel and all related supporting documentation for bank balances and reconciling items should be gathered, understood by the preparer of the reconciliation, and retained. In addition, the reconciliation should be reviewed and approved in writing by management.

The School's cash reconciliation as of June 30, 2004, stated a reconciled book balance of ($10,389) which was reported on the Statement of Net Assets as of June 30, 2004, as a current liability for overdrawn checking account. The School's accounting system cash book balance stated a balance of ($19,678). The difference of ($9,289) between the reconciled book balance and the accounting system cash book balance could not be explained by the preparer of the reconciliation or by management.

We recommend that the School ensure that the monthly bank reconciliation is prepared by competent and adequately trained personnel who exercise due care in preparing and safeguarding the monthly bank reconciliation form and all related supporting documentation. We also recommend that the School Director and/or Trustees regularly review and approve in writing the monthly bank reconciliation, including all reconciling items and any adjustments to the reconciliations.

**FINDING NUMBER 2004-002**

**Material Weakness**

Monitoring Controls over the Payroll Cycle and Compliance with Requirements Governing the Withholding and Remitting of Employee Income and Employment Taxes

Monitoring controls over the payroll cycle did not include procedures which would enable management and the Board of Trustees to determine whether federal income and federal employment taxes, state income taxes, and city income taxes had been properly remitted to the appropriate governmental agencies on a timely basis during fiscal year 2004. In addition, there were no procedures in place to assist management and the Board in the oversight and monitoring of outstanding liabilities to governmental agencies for delinquent payroll taxes.

In the prior fiscal year 2003 audit, during the period from September 30, 2002 through June 30, 2003, the School withheld federal income and federal employment taxes, state income taxes, and City of Cincinnati income taxes from employees' earnings. However, the School failed to properly remit such withholdings as required by Sections 3401 through 3406 and Section 3102(a) of Chapter 26 of the Internal Revenue Code (IRC), Section 5747.06 of the Ohio Revised Code, and Regulation 311-31 of Chapter 311 of the Income Tax Ordinance of the City of Cincinnati, Ohio. As a result of the failure to properly remit the specified withholdings, the School reported a $61,700 long-term liability for delinquent payroll taxes on its Balance Sheet as of June 30, 2003.

**FINDING NUMBER 2004-002**
**(Continued)**

In examining payments of withholdings during the current audit of fiscal year 2004, School personnel were unable to provide sufficient documents, records, and accounting reports which would enable us to determine whether the School had properly remitted federal income and federal employment taxes, state income taxes, and city income taxes withheld from employees' earnings during fiscal year 2004. School personnel were also unable to provide us with reliable information regarding the current status and balances of the delinquent payroll taxes liabilities that existed as of June 30, 2003 and were reported on the fiscal year 2003 financial statements. Therefore, we contacted the appropriate federal, state, and local taxing authorities, who were able to confirm to us that the School owed the following amounts as of the dates indicated:

| Description of Liability | Date | Amount Owed |
|---|---|---|
| Federal Tax Liability | 10/25/2004 | $46,708.09 |
| State of Ohio Tax Liability | 10/31/2004 | $9,445.87 |
| City of Cincinnati Tax Liability | 6/30/2004 | $5,226.61 |

We recommend that management and the Board of Trustees ensure that all payroll transactions, activity, and payments are handled by competent and adequately trained personnel. We also recommend that management and the Board of Trustees review its procedures for monitoring of payroll cycle activity to ensure that all payroll activity is properly accounted for and that the School is in compliance with regulations governing the withholding and remitting of income and employment taxes.

**FINDING NUMBER 2004-003**

**Material Weakness**

Financial Records and Accounting Reports Supporting the Trial Balances

Internal control procedures are developed and implemented to assist management in the timely preparation of reliable annual financial statements and in reducing the potential for misstatement of those financial statements, whether due to errors or irregularities. An integral part of a system of internal control is the agreement of the summary total amounts reported by the accounting system with the underlying detailed financial records and detailed financial reports produced by the accounting system.

The School's accounting system generates a trial balance report which served as the starting point or basis for preparation of its financial statements. The trial balance report lists all of the open general ledger classes of transactions and account balances and the corresponding total amounts for those classes of transactions and account balances as of and for the year ended June 30, 2004. We were unable to obtain detailed transaction records and reports from the School's accounting system for all of the material classes of transactions and account balances listed on the trial balance report.

To ensure the reliability of the trial balances and the financial statements, we recommend that the School Director and/or the Board of Trustees review monthly financial data, monthly trial balance reports, or monthly financial statements generated by the accounting system, including a comparison of the summary total amounts reported to the underlying detailed financial reports produced by the accounting system. Any differences or discrepancies identified during such reviews should be immediately investigated and resolved. The School Director and/or Board of Trustees might also consider contacting its software vendor to assist in investigating instances in which the total amounts reported on the detail financial reports do not agree to the summary amounts reported on the trial balance reports.

**FINDING NUMBER 2004-004**

**Reportable Condition**

Minutes Records

The minutes serve as the School's official and public record of the meetings, deliberations, actions, and decisions of the School's Board of Trustees. In reviewing the minutes, we noted that they were not always signed by the President of the Board and the School Director.

To ensure that the minutes adequately reflect all of the significant deliberations, actions, and decisions of the Board of Trustees, we recommend that the President of the Board and the School Director regularly review and sign the minutes from every meeting. In addition, to further ensure the contents of the minutes, we recommend that the review and signing of the minutes by the President of the Board and the School Director occur as soon as possible after each meeting date.

**FINDING NUMBER 2004-005**

**Non-Compliance/Reportable Condition**

**Ohio Rev. Code, Section 3314.011,** provides that every community school established under this chapter shall have a designated fiscal officer. According to Section 2.33 of the *Ohio School Law Guide* (2004-2005), key duties of the fiscal officer include budgeting, monitoring compliance with the school's financial plan, and the preparation of annual reports for filing with the sponsor district and the State Auditor. During fiscal year 2004, the School employed a full-time person who performed the duties of fiscal officer and also other responsibilities as requested by the School Director. However, contrary to the requirements of this Section, the Board of Trustees failed to officially designate that person to serve as fiscal officer.

**FINDING NUMBER 2004-006**

**Non-Compliance/Reportable Condition**

**Ohio Rev. Code, Section 3314.03(A)(10),** provides that each contract entered into between a sponsor and the governing authority of a community school shall specify the qualifications of teachers, including a requirement that all community school classroom teachers are to be licensed in accordance with Ohio Rev. Code Sections 3319.22 to 3319.31, except that a community school may engage non-certificated persons to teach up to twelve hours per week pursuant to Ohio Rev. Code Section 3319.301, provided that such persons have a permit issued by the Ohio Department of Education. Additionally, Article 3, Section C (Governance and Administrative Plan) of the School Charter, states that the School must hire classroom teachers who are licensed in accordance with the requirements of the Ohio Revised Code. Contrary to the requirements of these Sections, in the course of reviewing personnel files, we noted the following:

- The personnel file of one full-time teacher did not contain evidence of a valid teaching license.
- The personnel file of one person who served as a full-time, long-term substitute teacher did not contain evidence of either a valid teaching license or a permit issued by the Ohio Department of Education.
- The personnel files of two full-time teachers contained valid teaching licenses for designated classroom grade levels. However, the two teachers were teaching in areas outside of the classroom grade levels for which they were licensed.

## FINDING NUMBER 2004-007

**Non-Compliance/Reportable Condition**

**Ohio Rev. Code, Section 117.38,** requires GAAP-basis entities to file an annual report with the Auditor of State within 150 days of fiscal year end. Contrary to the requirements of this Section, the School failed to file its annual report with the Auditor of State.

**OAK TREE MONTESSORI, INC.**
**HAMILTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS**
**JUNE 30, 2004**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain*** |
|---|---|---|---|
| 2003-001 | Noncompliance/Reportable Condition –<br><br>In fiscal year 2003, the School withheld federal income and employment taxes from employees' earnings in accordance with requirements of the Internal Revenue Code. However, the School failed to remit approximately $45,600 of federal withholdings to the U.S. Treasury. | No. | Reissued as Finding 2004-002. |
| 2003-002 | Noncompliance/Reportable Condition –<br><br>In fiscal year 2003, the School withheld state income taxes from employees' earnings in accordance with requirements of the Ohio Revised Code. However, the School failed to remit approximately $9,120 of state withholdings to the State of Ohio. | No. | Reissued as Finding 2004-002. |

| | | | |
|---|---|---|---|
| 2003-003 | Noncompliance/Reportable Condition –<br><br>In fiscal year 2003, the School withheld city income taxes from employees' earnings in accordance with requirements of the City of Cincinnati Income Tax Ordinance. However, the School failed to remit approximately $8,200 of city withholdings to the City of Cincinnati. | No. | Reissued as Finding 2004-002. |
| 2003-004 | Reportable Condition – We recommended that the School exercise due care in preparation of the monthly bank reconciliation. We also recommended that the School Director and/or Trustees regularly review the monthly bank reconciliations and document in writing that such review(s) have been performed. | No. | Reissued as Finding 2004-001. |

Auditor of State
Betty Montgomery

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**OAK TREE MONTESSORI**

**HAMILTON COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

Susan Babbitt

**CLERK OF THE BUREAU**

**CERTIFIED**
**APRIL 11, 2006**