



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

REGULAR AUDIT

FOR THE FISCAL YEARS ENDED JUNE 30, 2000-1999



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

OAK TREE MONTESSORI, INC.
HAMILTON COUNTY

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INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Trustees:

We have audited the accompanying Balance Sheet of Oak Tree Montessori, Inc., Hamilton County, Ohio (the School), as of and for the years ended June 30, 2000 and 1999, and the related Statement of Revenue, Expenses, and Changes in Retained Earnings, and the Statement 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 generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oak Tree Montessori, Hamilton County, Ohio, as of June 30, 2000 and 1999, 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 December 8, 2000, 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, 2000. We previously issued our report dated March 9, 2000 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, 1999. 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.

Jim Petro
Auditor of State

December 8, 2000

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

Combined Balance Sheet - Enterprise Funds
June 30, 2000 and 1999

	<u>2000</u>	<u>1999</u>
<i>Assets</i>		
Current assets		
Cash	\$ 41,175	102,419
Accounts receivable	18,210	2,989
Intergovernmental receivable	<u>50,000</u>	<u>0</u>
Total current assets	<u>109,385</u>	<u>105,408</u>
Furniture and equipment	16,669	9,570
Less: accumulated depreciation	<u>(5,248)</u>	<u>(1,914)</u>
Furniture and equipment, net	<u>11,421</u>	<u>7,656</u>
Total assets	\$ <u><u>120,806</u></u>	<u><u>113,064</u></u>
<i>Liabilities and Fund Equity</i>		
Current liabilities		
Accounts payable	\$ 7,896	8,792
Accrued wages and benefits	21,602	22,500
Intergovernmental payable	<u>14,095</u>	<u>6,606</u>
Total current liabilities	<u>43,593</u>	<u>37,898</u>
Long-term liabilities		
Compensated absences payable	<u>6,081</u>	<u>7,695</u>
Total liabilities	<u>49,674</u>	<u>45,593</u>
Fund Equity		
Contributed capital	9,570	9,570
Retained earnings		
Unreserved	<u>61,562</u>	<u>57,901</u>
Total fund equity	<u>71,132</u>	<u>67,471</u>
Total liabilities and fund equity	\$ <u><u>120,806</u></u>	<u><u>113,064</u></u>

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

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

Combined Statement of Revenues, Expenses and Changes in Fund Equity
Enterprise Funds

Years Ended June 30, 2000 and 1999

	2000	1999
Operating revenues		
Charges for services	\$ 115,453	55,588
Food service	2,987	2,701
Foundation payments	218,533	273,186
Disadvantaged pupil impact aid	90,742	51,084
State special education program	33,684	8,899
Other	8,738	2,048
Total operating revenues	470,137	393,506
Operating expenses		
Salaries	307,522	258,706
Fringe benefits	117,701	46,511
Purchased services:		
Rent	28,369	23,050
Contract services	17,465	3,920
Utilities	5,896	6,546
Field trip	4,899	1,807
Parking	4,394	3,140
Other purchased services	20,545	2,809
Supplies and materials	41,971	42,704
Depreciation	3,334	1,914
Other	6,604	7,400
Total operating expenses	558,700	398,507
Operating loss	(88,563)	(5,001)
Non-operating revenues		
Other state grants	3,000	3,000
Federal grants	88,345	57,302
Contributions	879	2,600
Total non-operating revenues	92,224	62,902
Net income	3,661	57,901
Retained earnings at beginning of year	57,901	0
Retained earnings at end of year	61,562	57,901
Contributed capital at beginning of year	9,570	0
Contributed equipment	0	9,570
Contributed capital at end of year	9,570	9,570
Total fund equity at end of year	\$ 71,132	67,471

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

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

Combined Statement of Cash Flows - Enterprise Funds
Years Ended June 30, 2000 and 1999

	2000	1999
Cash flows from operating activities		
Operating loss	\$ (88,563)	(5,001)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	3,334	1,914
Changes in assets and liabilities:		
Accounts receivable	(15,221)	(2,989)
Accounts payable	(896)	8,792
Intergovernmental payable	7,489	6,606
Accrued wages and benefits	(898)	22,500
Compensated absences payable	(1,614)	7,695
Net cash provided (used) by operating activities	(96,369)	39,517
Cash flows from noncapital financing activities		
Federal and state grants	41,345	60,302
Contributions	879	2,600
Net cash provided by noncapital financing activities	42,224	62,902
Cash flows from capital and related financing activities		
Acquisition of capital assets	(7,099)	0
Net cash used by capital and related financing activities	(7,099)	0
Net increase (decrease) in cash	(61,244)	102,419
Cash beginning of year	102,419	0
Cash end of year	\$ 41,175	102,419

Noncash investing, capital, and financing activities

During the year ended June 30, 1999, the School received \$9,570 in donated furniture and equipment from various sources.

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

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

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2000 AND 1999**

NOTE 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. 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. 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, which is part of the state's education program, is independent of any school district.

Pauline Childs, the developer, 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 for the period of three years, 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 primary government of the School consists of all funds and departments that comprise the legal entity of the School. This includes general operations as well as preschool and aftercare programs. The preschool 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 combined financial statements.

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, to its proprietary activities 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.

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

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2000 AND 1999
(Continued)**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. BASIS OF PRESENTATION – FUND ACCOUNTING

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

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 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.

C. BUDGETARY PROCESS

The Board adopted a budget as required by the school charter. The School had total expenditures for Salaries, Purchased Services, Materials and Supplies, and Capital Outlay that exceeded total budgeted amounts.

D. CASH

All cash received by the School is kept in one of three separate accounts. The general checking account is used for the charter school while the preschool and aftercare programs utilize another checking account. Finally, the School also uses a savings account. Total cash held at year-end is presented as “cash” on the accompanying balance sheet.

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

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2000 AND 1999
(Continued)**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. FIXED ASSETS AND DEPRECIATION

Fixed 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 market 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 fixed 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.

F. ACCRUED LIABILITIES

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

G. 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.

Sick leave benefits are accrued using the termination method. The liability includes the employees who are currently eligible to receive termination benefits and those employees for whom it is probable that they will become eligible to receive payment in the future. The amount is based on accumulated sick leave and employees' wage rates at year-end.

H. CONTRIBUTED CAPITAL

Contributed capital represents resources from other governments and private sources provided to the School that are not subject to repayment.

I. 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.

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

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2000 AND 1999
(Continued)**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. 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 when earned and measurable.

Grants and entitlements are recognized as revenues when earned and measurable.

K. CHARGES FOR SERVICES

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

NOTE 3 - DEPOSITS

At June 30, 2000, the carrying amount of the School's deposits was \$41,175 and the bank balance was \$44,964, which was covered by federal depository insurance.

At June 30, 1999, the carrying amount of the School's deposits was \$102,419 and the bank balance was \$114,732. Of the bank balance, \$100,000 was covered by federal depository insurance. The remaining amounts are considered uninsured and uncollateralized.

NOTE 4 - 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 the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the School is required to contribute 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 the fiscal years ended June 30, 2000 and 1999 were \$14,972 and \$9,573

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

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2000 AND 1999
(Continued)**

NOTE 4 - DEFINED BENEFIT PENSION PLANS (Continued)

respectively; 91 percent has been contributed for fiscal year 2000 and 100 percent for fiscal year 1999. The unpaid contribution for fiscal year 2000 is recorded as a liability.

State Teachers Retirement System

The School contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basis retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Chapter 3307 of the Ohio Revised Code establishes benefits. STRS issued a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and the School is required to contribute 14 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School's required contributions to STRS for the fiscal years ended June 30, 2000 and 1999 were \$30,893 and \$21,523 respectively; 60 percent has been contributed for fiscal year 2000 and 100 percent for fiscal year 1999. The unpaid contribution for fiscal year 2000 is recorded as a liability.

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2000, no employees or members of the governing board have elected social security.

NOTE 5 - POSTEMPLOYMENT BENEFITS

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement Systems (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.

For STRS, most benefit recipients are required to 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,

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

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2000 AND 1999
(Continued)**

NOTE 5 - POSTEMPLOYMENT BENEFITS (Continued)

2000 and 1999, the Retirement Board allocated employer contributions equal to 8% and 3.5%, respectively, of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. For the School, this amount equaled \$17,653 and \$5,380, respectively during the 2000 and 1999 fiscal years. The balance in the fund was \$2,783 million at June 30, 1999.

For the year ended June 30, 1999, net health care costs paid by STRS were \$249,929,000 and STRS had 95,796 eligible benefit recipients.

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

For the 2000 and 1999 fiscal years, employer contributions to fund health care benefits were 8.5% and 6.30%, 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 2000 and 1999, 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 percent of annual health care expenses. Expenses for health care for the year ended June 30, 1999 were \$126.4 million and the target level was \$189.6 million. At June 30, 1999, SERS' net assets available for payment of health care benefits was \$188 million. SERS has approximately 51,000 participants currently receiving health care benefits. For the School, this amount equaled \$6,737 and \$4,308 respectively, during the 2000 and 1999 fiscal years.

NOTE 6 – 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.

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

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2000 AND 1999
(Continued)**

NOTE 7 - 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 2000 and 1999, the School contracted with General Accident Insurance Company of America for property and general liability insurance. There is a \$1,000 deductible with a 100% blanket, all risk policy. Settled claims have not exceeded this commercial coverage in the past two years.

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 8 – SCHOOL FUNDING DECISION

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to this School. During the fiscal years ended June 30, 2000 and 1999, the School received \$218,533 and \$273,186, respectively, of school foundation support for its operations.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State General Assembly in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. On May 11, 2000, the Ohio Supreme Court rendered an opinion on this issue. The Court concluded, "...the mandate of the [Ohio] Constitution has not been fulfilled." The Court's majority recognized efforts by the State General Assembly taken in response to the Court's March 24, 1997 decision, however, it found seven "...major areas warrant further attention, study, and development by the General Assembly..." including the State's reliance on local property tax funding, the State's basic aid formula, the school foundation program, as discussed above, the mechanism for, and adequacy of, funding for school facilities, and the existence of the State's School Solvency Assistance Fund, which the Court found took the place of the unconstitutional emergency school loan assistance program.

The Court decided to maintain jurisdiction over these issues and continued the case at least until June 15, 2001.

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

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2000 AND 1999
(Continued)**

NOTE 8 – SCHOOL FUNDING DECISION (Continued)

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

NOTE 9 – CONTINGENT LIABILITIES

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, 2000.

NOTE 10 – RELATED PARTY

The Executive Director of the School is a family member of two Board members of the School. The salary for this position was \$50,470 and \$49,000 for the years ended June 30, 2000 and 1999, respectively.

NOTE 11 - FEDERAL CHARTER SCHOOL SUB-GRANT

During fiscal year 1999, the School received \$50,000 of federal grant money for the design and implementation of its charter school. This was the first installment of three that the school received. The money can be used for certain expenses as described in the grant agreement. The School's second installment of \$50,000 is recorded as an intergovernmental receivable as of June 30, 2000.

NOTE 12 - OPERATING LEASE

The School leases space from Cincinnati Union Bethel. A one year lease was entered into in August of 1998 for fiscal year 1999, with an option for two one-year renewals. The School was in its first renewal year for fiscal year 2000. The lease payments are \$2,250 per month or \$27,000 per year.



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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS

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

To the Board of Trustees:

We have audited the financial statements of Oak Tree Montessori, Inc., Hamilton County, Ohio (the School), as of and for the year ended June 30, 2000, and have issued our report thereon dated December 8, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the School in a separate letter dated December 8, 2000.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of Oak Tree Montessori, Inc. in a separate letter dated December 8, 2000.

Oak Tree Montessori, Inc.
Hamilton County
Report on Compliance and on Internal Control Required by
Government Auditing Standards
Page 2

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

Jim Petro
Auditor of State

December 8, 2000



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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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
JANUARY 16, 2001**