MONTESSORI RENAISSANCE EXPERIENCE
FRANKLIN COUNTY

INITIAL AUDIT

FOR THE YEAR ENDED JUNE 30, 2002

JIM PETRO
AUDITOR OF STATE
STATE OF OHIO

MONTESSORI RENAISSANCE EXPERIENCE
FRANKLIN COUNTY

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REPORT OF INDEPENDENT ACCOUNTANTS

Montessori Renaissance Experience
Franklin County
1895 Summit St
Columbus, Ohio 43201

To the Board of Trustees:

We have audited the accompanying Balance Sheet of the Montessori Renaissance Experience, Inc. (the School) as of June 30, 2002, and the related Statement of Revenues, Expenses, and Changes in Retained Earnings and the Statement of Cash Flows for the year then ended. These financial statements are the responsibility of the School's management. 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 Montessori Renaissance Experience, Inc. as of June 30, 2002, and the results of operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2002 on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

JIM PETRO
Auditor of State

September 27, 2002

MONTESSORI RENAISSANCE EXPERIENCE
FRANKLIN COUNTY

BALANCE SHEET
AS OF JUNE 30, 2002

ASSETS

Current Assets		
Cash and cash equivalents	$	53,952
Non Current Assets		
Furniture and Equipment, Net		6,124
Total Assets	$	60,076

LIABILITIES AND EQUITY

Current Liabilities		
Accounts Payable	$	4,980
Intergovernmental Payable		5,587
Accrued Wages		8,615
Total Current Liabilities		19,182
Equity		
Retained Earnings		40,894
Total Liabilities and Equity	$	60,076

The Accompanying Notes are an Integral Part of the Financial Statements.

MONTESSORI RENAISSANCE EXPERIENCE
FRANKLIN COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IINRETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2002

Operating Revenues	
Foundation Payments	$ 114,979
Disadvantaged Pupil Impact Aid	36,076
Donations	225
Total Operating Revenue	151,280
Operating Expenses	
Salaries	120,710
Fringe Benefits	16,980
Purchased Services	144,018
Materials and Supplies	38,457
Depreciation	1,532
Other Operating Expenses	12,700
Total Operating Expenses	334,397
Operating Loss	(183,117)
Non-Operating Revenues	
State Restricted Grants	5,000
Federal Restricted Grants	200,000
Interest Income	987
Total Non-Operating Revenues	205,987
Net Income	22,870
Retained Earnings Beginning of Year	18,024
Retained Earnings End of Year	$ 40,894

The Accompanying Notes are an Integral Part of the Financial Statements.

MONTESSORI RENAISSANCE EXPERIENCE
FRANKLIN COUNTY

STATEMENT OF CASH FLOWS
FOR THE YEAR END JUNE 30, 2002

Increase in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from State of Ohio	$ 151,055
Cash Payments to Suppliers for Goods and Services	(190,194)
Cash Payments to Employees for Services	(123,489)
Other Operating Revenue	225
Net Cash Used in Operating Activities	(162,403)
Cash Flows from Noncapital Financing Activities	
State Restricted Grants	$ 5,000
Federal Restricted Grants	200,000
Net Cash Provided by Noncapital Financing Activities	205,000
Cash Flows from Capital and Related Financing Activities	
Fixed Asset Purchases	(7,656)
Cash Inflows from Investing Activities	
Interest Income	987
Net Increase in Cash and Cash Equivalents	35,928
Cash and Cash Equivalents at Beginning of Year	18,024
Cash and Cash Equivalents at End of Year	$ 53,952

Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
Operating Loss	(183,117)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities	
Depreciation Expense	1,532
Changes in Assets and Liabilities	
Increase in Accounts Payable	5,587
Increase in Intergovernmental Payable	8,615
Increase in Accured Wages	4,980
Total Adjustments	20,714
Net Cash Used for Operating Activities	$ (162,403)

The Accompanying Notes are an Integral Part of the Financial Statements.

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1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Montessori Renaissance Experience, Inc. (the School) is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service 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. Specifically, the School's purpose is to be a model charter school serving children from kindergarten through grade two. The School, which is part of the state's education program, is independent of any school district. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the school. 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 creation of the School was initially proposed to the Ohio Department of Education, the sponsor, by the developers of the School in September 2000. The Ohio Department of Education approved the proposal and entered into a contract with the developers, which provided for the commencement of School operations on August 26, 2001. The School operates under a three-member Board of Governors, which is comprised of the developers. The Board is responsible for carrying out the 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 qualifications of teachers. The Board of Governors controls the School's one instructional facility staffed by two full-time and one part-time noncertified personnel, and three certificated full-time teaching personnel who provide services to approximately twenty-five students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Montessori Renaissance Experience, Inc. have been prepared in conformity with accounting principles generally accepted in the United States of America 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 statements and interpretations issued on or after November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the School's accounting policies are described below:

A. 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 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 net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total 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 used 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 the Ohio Revised Code Chapter 5705, unless specifically provided by the School's contract with its sponsor. The contract between Montessori Renaissance Experience, Inc. and its sponsor, Ohio Department of Education, does not prescribe a budgetary process for the School.

D. Cash and Cash Equivalents

All monies received by the School are maintained in a demand deposit account. For internal accounting control purposes, the School segregates its cash. Individual fund integrity is maintained through School records and the USAS accounting system. Total cash for all funds is presented as "cash and cash equivalents" on the accompanying balance sheet. For purposed of the statement of cash flows and the presentation of the balance sheet, investments with a maturity of three months or less at the time they are purchased are considered to be cash equivalents.

E. Estimates

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

F. Fixed Assets and Depreciation

Fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the dates received. The School maintains a capitalization threshold of five hundred dollars. The School did not capitalize any interest during the fiscal year. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Depreciation of furniture and equipment and vehicles is computed using the straight-line method over the estimated useful life of five years. Improvements to fixed assets are depreciated over the remaining useful lives of the related fixed assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Intergovernmental Revenue

The School currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid (DPIA) Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. The School also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the School was awarded $250,000 to offset startup costs of the School. Revenue received from this program is recognized as non-operating revenue in the accompanying financial statements. Amounts awarded under the above named programs for the 2002 school year totaled $200,000.

3. DEPOSITS AND INVESTMENTS

Deposits: At June 30, 2002, the carrying amount of the School's deposits was $53,952 and the bank balance was $66,092. Of the bank balance, $66,092 was covered by federal depository insurance.

4. FIXED ASSETS

A summary of the School's fixed assets at June 30, 2002:

Furniture and Equipment	$ 7,656
Less: Accumulated Depreciation	(1,532)
Net Fixed Assets	$ 6,124

5. RISK MANAGEMENT

A. Property and Liability

The School is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School maintains insurance coverage for rental/theft, general liability and directors and officers liability in amounts which the founders feel is adequate.

B. Workers' Compensation

The School pays the State Workers' Compensation System a premium for employee injury coverage in fiscal year 2002. The premium is calculated by multiplying the monthly gross total payroll by a factor that is calculated by the State.

C. Employee, Medical, Dental, and Vision Benefits

The School did not provide employee health insurance benefits for fiscal year 2002.

6. DEFINED BENEFIT PENSION PLANS

A. 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. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. That 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. The current rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. The contribution requirements of plan members and employers are established and may be amended up to statutory maximum amounts. The School's required contribution for pension obligations to SERS for the fiscal year ended June 30, 2002 was $1,746. The unpaid contribution for fiscal year 2002 amounted to $557 and is recorded as a liability.

B. 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 basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

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 contribution for pension obligations to STRS for the fiscal year ended June 30, 2002 was $6,261. The unpaid contribution amounted to $10 for the fiscal year 2002, and is recorded as a liability.

7. 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 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.

7. POST EMPLOYMENT BENEFITS (Continued)

Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2002, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled $2,963 for fiscal year 2002. STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001, (the latest information available) the balance in the Fund was $3,256 million. For the year ended June 30, 2001, net health care costs paid by STRS were $300,772,000 and STRS had 102,132 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, 2002, employer contributions to fund health care benefits were 9.80 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 2002, the minimum pay was established at $12,400. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2001 fiscal year equaled $4,075. 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, 2001 (the latest information available), were $161,439,934 and the target level was $242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of $315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

8. OTHER EMPLOYEE BENEFITS

Compensated Absences

The criteria for determining vacation and sick leave components are derived from School policy and State laws. All employees are at-will employees and do not have contracts as employees in traditional school districts. Salaried employees accrue sick time of 15 days per calendar year and are awarded 3 personal days at the beginning of the school year. Hourly rate employees do not accrue leave and are paid based upon hours worked only. Upon separation of service, any personal time is paid at 100% of rate while sick time is not paid.

9. STATE SCHOOL FUNDING DECISION

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.

- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

- The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

The State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001. In November, 2001, the Court granted the request for reconsideration, but also ordered the parties to participate in a settlement conference with a court appointed mediator. On March 21, 2002, the mediator issued his final report indicating that the conference was unable to produce a settlement. The case is now under reconsideration by the Court.

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

10. 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 is 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, 2002.

B. Litigation

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

11. LEASES

The School leases a building and office facility under a cancelable operating lease. The terms of this lease end August 31, 2006. Total lease payments were $31,750 for the year ended June 30, 2002. The future payments for this lease are as follows:

Year Ending June 30,	Amount
2,003	$36,000
2,004	36,000
2,005	36,000
2,006	36,000
Total	$144,000

12. RELATED PARTY TRANSACTIONS

Andre E. Frazier was hired as a contractor to provide maintenance and repair services to ensure that building repairs were completed in order for the school to open. Mr. Frazier is a professional electrician and general building contractor and offered his services at a substantial discount. Mr. Frazier is the husband of Board President and Administrator Cynthia Frazier. Total compensation for fiscal year 2002 was $5,200. The board approved payments with Ms. Frazier abstaining.

13. PURCHASED SERVICES

For fiscal year ended June 30, 2002, purchased services expenses were as follows:

Building Lease	$34,750
Legal Fees	24,985
Accounting	21,616
Consulting	17,298
Advertisement	15,964
Repairs/Maintenance	12,464
Telephone	6,337
Nursing	3,150
Special Education Consulting	3,068
Security System Rental	1,236
Transportation	666
Other Miscellaneous	2,484
	$144,018

14. MANAGEMENT'S PLAN

The School had a significant operating loss and negative cash flow from operating activities for fiscal year 2002. This is due to the significantly low number of students (25) for its first year of operation. However, the school had $200,000 of startup grants and expects to receive additional startup monies in fiscal year 2003. Should the school not be able to raise its student enrollment however, the School may experience financial difficulties once the startup grant monies have been exhausted. Management plans to increase enrollment through active advertising and through referrals of current parents. Enrollment as of September 2002 is 35 students (an increase of 40%).

15. BEGINNING RETAINED EARNINGS

The School received $50,000 from the Ohio Department of Education prior to July 1, 2001 to offset start-up costs. Additionally, $1,035 of interest was earned on these monies. The School incurred miscellaneous expenses of $33,011 resulting in beginning retained earnings of $18,024.

16. FULLTIME EQUIVALENCY

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusions 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 2002, as a result of such review.

STATE OF OHIO
OFFICE OF THE AUDITOR

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

Montessori Renaissance Experience
Franklin County
1895 Summit St
Columbus, Ohio 43201

To the Board of Trustees:

We have audited the financial statements of Montessori Renaissance Experience, Inc., (the School), as of and for the year ended June 30, 2002, and have issued our report thereon dated September 27, 2002. 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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 a certain matter involving the internal control over financial reporting that does not require inclusion in this report that we have reported to management of the School in a separate letter dated September 27, 2002.

This report is intended for the information and use of the finance 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.

JIM PETRO
Auditor of State

September 27, 2002

STATE OF OHIO
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MONTESSORI RENAISSANCE EXEPERIENCE

FRANKLIN 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
DECEMBER 10, 2002