



**Auditor of State
Betty Montgomery**

**OMEGA SCHOOL OF EXCELLENCE
MONTGOMERY COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Omega School of Excellence
Montgomery County
1821 Emerson Avenue
Dayton, Ohio 45406

To the Governing Board:

We have audited the accompanying balance sheet of Omega School of Excellence, Montgomery County, (the School), as of June 30, 2003, 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 Omega School of Excellence, Montgomery County, as of June 30, 2003, and the results of its 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 January 16, 2004, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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.

A handwritten signature in black ink that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

January 16, 2004

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**OMEGA SCHOOL OF EXCELLENCE
MONTGOMERY COUNTY**

**BALANCE SHEET
AS OF JUNE 30, 2003**

ASSETS

Current Assets

Cash and cash equivalents	\$70,574
Receivables:	
Accounts	1,866
Grants	25,000
Intergovernmental	96,396
Prepaid expenses	5,308
	<hr/>
Total Current Assets	199,144

Non-Current Assets

Furniture and Equipment, Net	41,813
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Total Assets	240,957
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LIABILITIES AND EQUITY

Current Liabilities

Accounts Payable	48,952
Accrued Wages Payable	24,783
Intergovernmental Payable	5,084
Compensated Absences	4,484
Deferred Revenue	34,320
Line of Credit Payable	65,000
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Total Current Liabilities	182,623

Equity

Retained Earnings	58,334
	<hr/>
Total Liabilities and Equity	\$240,957
	<hr/> <hr/>

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

**OMEGA SCHOOL OF EXCELLENCE
MONTGOMERY COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2003**

Operating Revenues	
Foundation Payments	\$1,075,876
Disadvantaged Pupil Impact Aid	10,040
Sales	9,935
Other Revenues	<u>12,223</u>
Total Operating Revenues	<u>1,108,074</u>
Operating Expenses	
Salaries	829,828
Fringe Benefits	194,437
Purchased Services	204,899
Management Company Fees	36,750
Materials and Supplies	123,461
Depreciation	7,971
Other Operating Expenses	<u>8,891</u>
Total Operating Expenses	<u>1,406,237</u>
Operating Loss	(298,163)
Non-Operating Revenues	
Federal and State Grants	200,229
Contributions (See note 15)	236,267
Interest	<u>30</u>
Total Non-Operating Revenues	<u>436,526</u>
Net Income	138,363
Accumulated Deficit at Beginning of Year	<u>(80,029)</u>
Retained Earnings at End of Year	<u><u>\$58,334</u></u>

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

**OMEGA SCHOOL OF EXCELLENCE
MONTGOMERY COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2003**

Increase (Decrease) in Cash

Cash Flows from Operating Activities

Cash Received from State of Ohio	\$1,083,739
Cash Received from Sales	9,935
Cash Payments to Employees for Services	(1,027,794)
Cash Payments to Suppliers for Goods and Services	(348,536)
Cash Received from Other Revenues	11,163
Cash Payments for Other Expenses	<u>(14,072)</u>

Net Cash Used For Operating Activities (285,565)

Cash Flows from Noncapital Financing Activities

Federal and State Grants	186,975
Contributions	<u>211,267</u>

Net Cash Provided By Noncapital Financing Activities 398,242

Cash Flows from Capital and Related Financing Activities

Proceeds from Line of Credit	115,000
Payments on Line of Credit	(165,000)
Payments for Capital Acquisitions	<u>(5,811)</u>

Net Cash used for Capital and Related Financing Activities (55,811)

Cash Flows from Investing Activities

Interest	<u>30</u>
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Net Increase in Cash 56,896

Cash at Beginning of Year 13,678

Cash at End of Year 70,574

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

Operating Loss (298,163)

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

Depreciation 7,971

Change in Assets and Liabilities

Increase in Accounts Receivable	(1,060)
Increase in Foundation Revenue Receivable	(2,178)
Increase in Prepaids	(5,181)
Increase in Accounts Payable	16,575
Increase in Accrued Wages	2,789
Decrease in Intergovernmental Payable	(10,802)
Increase in Compensated Absences	<u>4,484</u>

Net Cash Used For Operating Activities (\$285,565)

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

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**OMEGA SCHOOL OF EXCELLENCE
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Omega School of Excellence (the "School") is a state nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in grades 5 through 8. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the school. Omega School of Excellence 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 was approved for operation under contract with the Ohio State Board of Education (the Sponsor) for a period of five years commencing July 1, 2000 through June 30, 2005. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration.

The School operates under a six-member Governing Board. The Governing 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 Governing Board controls the School's one instructional/support facility staffed by 18 personnel who provide instructional services to 203 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The 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/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

B. Measurement Focus and Basis Of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. The operating statement presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

**OMEGA SCHOOL OF EXCELLENCE
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. 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.

On the accrual basis of accounting, expenses are recognized at the time 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 Section 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the Omega School of Excellence and its Sponsor, the Ohio State Board of Education, does not prescribe a budgetary process for the School.

D. Cash

All monies received by the School are maintained in a demand deposit account.

E. 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.

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 value as of the date received. The School maintains a capitalization threshold of five hundred dollars. The School does not possess any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are expensed.

Depreciation of furniture and equipment is computed using the straight-line method over estimated useful lives of eight years. Improvements to fixed assets are depreciated over the remaining useful lives of the related fixed assets.

**OMEGA SCHOOL OF EXCELLENCE
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Intergovernmental Revenues

The School currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid (DPIA) Program, the Eisenhower Grant Program, the Title I Program, Title VI Program, Drug Free Schools Program, Title VI-R Program, the Technology Leadership Challenge program, the School Breakfast program, the National School lunch program, the Emergency School Repair program, and the State Special Education Program (through the State Foundation Program).

Revenues received from these programs are recognized as operating revenues in the accounting period in which they are earned, essentially the same as the fiscal year. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements of the grants have been met.

Amounts awarded under the above named programs for the 2002-2003 school year totaled \$1,286,145.

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. The School records a liability for accumulated unused vacation time when earned for all employees.

I. Accrued Liabilities

Obligations incurred but unbilled prior to June 30, 2003, are reported as accrued liabilities in the accompanying financial statements.

3. COMPLIANCE

The line of credit, described in Note 14, is in violation of debt limitations for Community Schools. Community Schools are permitted to issue notes in anticipation of State revenue identified in Ohio Revised Code Section 3314.08(D), providing the debt matures no later than the end of the fiscal year in which such money was borrowed. The line of credit was not paid off by June 30, 2003.

4. DEPOSITS AND INVESTMENTS

State statutes classify moneys held by the School into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such money must be maintained either as cash in the School Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Protection of the School's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public moneys deposited with the institution.

**OMEGA SCHOOL OF EXCELLENCE
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

During fiscal year 2003, the School did not have any investments.

Deposits: At fiscal year end the carrying amount of the School's cash and deposits were \$70,574 and the bank balance was \$99,805. The entire bank balance was covered by federal depository insurance.

5. RECEIVABLES

Receivables at June 30, 2003, consisted of intergovernmental grants and the state foundation program. All receivables are considered collectible in full. A summary of the principal items of intergovernmental receivables follows:

<u>Receivable</u>	<u>Amount</u>
Title II-A	\$16,542
IDEA	6,603
Title IV-A	490
Title V	722
Title I	68,151
Lunchroom Reimbursement	1,710
State Foundation	<u>2,178</u>
Total Intergovernmental Receivables	<u><u>\$96,396</u></u>

6. FIXED ASSETS

A summary of the School's fixed assets at June 30, 2003, follows:

Furniture and Equipment	\$63,774
Less: Accumulated Depreciation	<u>(21,961)</u>
Fixed Assets, net	<u><u>\$41,813</u></u>

The School takes a full year of depreciation in the year of acquisition. Depreciation expense for the fiscal year ended June 30, 2003 was \$7,971.

7. RISK MANAGEMENT

A. Property and liability

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 year 2003, the School contracted with Indiana Insurance Company for general liability. Coverage provided \$1,000,000 per occurrence and \$2,000,000 in the aggregate with no deductible.

**OMEGA SCHOOL OF EXCELLENCE
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

7. RISK MANAGEMENT (Continued)

B. Workers' Compensation

The School pays the State Workers' Compensation System a premium for employee injury coverage. The premium is calculated by multiplying annual gross payroll by a factor calculated by the State.

C. Employee Medical and Dental Benefits

The School carries their medical and dental insurance through United Health Care. The School pays 80% of medical and dental benefits for employees. The employee is responsible for the remainder of premiums. For fiscal year 2003, the annual cost of medical insurance is based on gender and age.

8. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District 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 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. 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 District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002 and 2001 were \$14,059, \$3,342 and \$4,372, respectively; 97.38 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

B. State Teachers Retirement System

The School District 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.

**OMEGA SCHOOL OF EXCELLENCE
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

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, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 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 District's required contributions for pension obligations for the fiscal years ended June 30, 2003, 2002, and 2001 were \$101,098, \$41,399, and \$50,780, respectively; 95.98 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

9. POSTEMPLOYMENT BENEFITS

State Teachers Retirement System of Ohio (STRS Ohio) provides comprehensive healthcare benefits to retirees and their dependents. Coverage includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Ohio Revised Code (R.C.), the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. The R.C. grants authority to STRS Ohio to provide health care coverage to benefit recipients, spouses and dependents. 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.

**OMEGA SCHOOL OF EXCELLENCE
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

9. POST EMPLOYMENT BENEFITS (Continued)

The Retirement Board allocates employer contributions to the Health Care Reserve Fund from which health care benefits are paid. For fiscal year ended June 30, 2003, the Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$3.011 billion on June 30, 2002. For the School District, this amount equaled \$7,221 during the 2003 fiscal year.

For the year ended June 30, 2002, net health care costs paid by STRS Ohio were \$354,697,000. There were 105,300 eligible benefit recipients.

For SERS, the Ohio Revised Code gives the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989 with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 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, 2003, the allocation rate is 5.83 percent. 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 2003, the minimum pay has been established at \$14,500. For the School, the amount to fund health care benefits, including the surcharge, was \$5,854 for fiscal year 2003.

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 annual health care expenses. Expenses for health care at June 30, 2003, were \$204,930,737 and the target level was \$307.4 million. At June 30, 2003, the Retirement System's net assets available for payment of health care benefits of \$303.6 million. The number of benefit recipients currently receiving health care benefits is approximately 50,000.

10. EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from a personnel policy manual adopted by the Governing Board. Classified employees earn vacation in accordance with the terms and conditions noted in the employment contracts. Vacation days are credited to classified employees each month and must be used within the next twelve months. Vacation may be carried forward beyond June 30 only with the approval of the Director. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 150 days. Upon retirement, payment is made for one-fourth of the total accumulated and unused, up to a maximum of 37.5 days.

**OMEGA SCHOOL OF EXCELLENCE
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

10. EMPLOYEE BENEFITS (Continued)

B. Health Care Benefits

The School provides health insurance, life insurance and accidental death and dismemberment insurance to employees through United Health Care of Ohio, Inc. Employee share of the total premium is twenty percent of the monthly premium up to the cap. The premium varies with each employee depending on the terms of the insurance contract.

11. OPERATING LEASE

The School leases classroom and office space from Omega Baptist Church, a non-cancelable, operating lease. The term of this lease commences July 1, 2000 and continues through June 30, 2004. The lease automatically renews for 3 years unless written notification is given by either party no later than 60 days prior to end of term. The lease payment includes the cost of utilities, maintenance, custodial and grounds services. The minimum lease payment for 2004 is \$122,443.

Both parties agreed to modifications in the lease that reduced the Omega School of Excellence's obligations to the Omega Baptist Church by \$41,667. The Omega Baptist Church confirmed their previous commitment to grant this reduction during their January 2004 Board meeting.

12. CONTINGENCIES

A. Grants

Amounts received from grantor agencies are subject to audit and adjustment by the grantor. Any disallowed costs may require refunding to the grantor. Amounts, which may be disallowed, if any, are not presently determinable. However, in the opinion of the School, any such disallowed claims will not have a material adverse effect on the financial position of the School.

B. State Funding

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency 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 review resulted in the discovery of an underpayment to the School in the amount of \$2,178. This amount is reflected as a State Foundation receivable and is included in State Foundation revenue.

C. 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. On April 21, 2003, the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard for oral argument on November 18, 2003. The effect of this suit, if any, on the Omega School of Excellence, is not presently determinable.

**OMEGA SCHOOL OF EXCELLENCE
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

13. OTHER PURCHASED SERVICES

During the year ended June 30, 2003, other purchased service expenses for services rendered by various vendors were as follows:

Staff Development	\$ 12,388
Administrative Expenses:	
Postage	2,317
Advertising	10,484
Phone and Internet Lines	13,322
Legal Services	7,628
Other	1,687
Total Administrative Expenses	35,438
Building and Equipment Maintenance and Repair	19,669
Building Lease/Gym Rental	76,752
Security Services	1,163
MDECA Services	5,507
Student Field Trips	1,210
Student Instructional Enhancements	31,625
Other	21,147
Total Purchased Services	\$ 204,899

14. LINE OF CREDIT

On July 10, 2002, the School borrowed \$90,000 and on December 16, 2002, another \$25,000 from Fifth-Third Bank. These were unsecured 12-month loans at prime rate. Two payments totaling \$50,000 were made on May 21, 2003 and May 30, 2003. The purpose of these loans was to help the school meet cash flows needs.

	Balance <u>7/1/02</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>6/30/03</u>
Line of Credit	\$115,000	115,000	165,000	\$65,000

15. CONTRIBUTIONS

The School received several contributions from various organizations. A summary of the amounts received follows:

Repayment for line of credit	\$ 165,000
Enhancement of Music Curriculum	15,000
Lunchroom Program	15,000
Literacy Improvement	1,000
Technology Enhancement	12,850
General Operations	27,417
Total Contributions	\$ 236,267

**OMEGA SCHOOL OF EXCELLENCE
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

16. RELATED PARTIES

The Board President, Reverend Daryl Ward is the husband of the Omega School Director, Reverend Vanessa Ward.

During fiscal year 2003, Reverend Vanessa Ward's salary was \$67,920 and the Board picked up her share of Medicare, STRS, amounting to an additional \$7,821 in salary. The Director's husband and Board President, Reverend Daryl Ward, abstains from voting on his wife's salary.

Reverend Daryl Ward also sits on the Board of Parents Advancing Choice in Education (PACE). During fiscal year 2003, the School contracted with the PACE School Resource Center, a consulting service of PACE, for instructional, financial management, and basic business services. The total amount of the contract was for \$49,000, of which \$40,250 related to fiscal year 2003 services. Reverend Daryl Ward abstained from voting on the contract.

17. STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional.

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

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

18. SUBSEQUENT EVENT

The \$65,000 line of credit note principal balance (see note 14) was paid off in August and December 2003.



Auditor of State Betty Montgomery

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

Omega School of Excellence
Montgomery County
1821 Emerson Avenue
Dayton, Ohio 45406

To the Governing Board:

We have audited the financial statements of the Omega School of Excellence, Montgomery County, (the School), as of and for the year ended June 30, 2003 and have issued our report thereon dated January 16, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2003 - 001. We also noted immaterial instances of noncompliance that we have reported to management of the School in a separate letter dated January 16, 2004.

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 certain matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School in a separate letter dated January 16, 2004.

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Omega School of Excellence
Montgomery County
Independent Accountants' 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 finance/audit committee, management, and the Governing Board, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

January 16, 2004

**OMEGA SCHOOL OF EXCELLENCE
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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

FINDING NUMBER 2003-001

Ohio Rev. Code Section 3314.08(J) (1) states, “a community school may borrow money to pay any necessary and actual expenses of the school in anticipation of the receipt of any portion of the payments to be received by the school pursuant to division (D) of this section. The school may issue notes to evidence such borrowing to mature no later than the end of the fiscal year in which such money is borrowed. The proceeds of the notes shall be used only for the purposes for which the anticipated receipts may be lawfully expended by the school.” See also amendments to Revised Code 3314.08(J), effective 4-8-2003.

The School did not comply with the above requirement. The School entered into lines of credit totaling \$230,000 at December 13, 2002. \$65,000 of the principal amount was still outstanding at June 30, 2003.

**OMEGA SCHOOL OF EXCELLENCE
MONTGOMERY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Finding <u>Number</u>	Finding <u>Summary</u>	Fully <u>Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer <u>Valid; Explain:</u>
2002-10357-001	Ohio Rev. Code Section 3314.08(J) – debt extended beyond fiscal year end.	No	Repeated as finding number 2003-001.



**Auditor of State
Betty Montgomery**

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OMEGA SCHOOL OF EXCELLENCE

MONTGOMERY 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 29, 2004**