



**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 financial statements of the Omega School of Excellence, Montgomery County, (the School), as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions 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 opinions.

The School's financial statements do not disclose a liability for compensated absences. In our opinion, disclosure of this information is required by accounting principles generally accepted in the United States of America. As a result of this omission, the School's Statement of Net Assets understates liabilities and overstates net assets by amounts we cannot reasonably determine.

In our opinion, except for the omission of the information discussed in the preceding paragraph, 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, 2004, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2004, the School implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis* for State and Local Governments.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2005, 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 grant agreements and other matters. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal controls over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

**Betty Montgomery**  
Auditor of State

March 7, 2005

**OMEGA SCHOOL OF EXCELLENCE**  
**MONTGOMERY COUNTY, OHIO**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
(Unaudited)

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

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

### **Financial Highlights**

Key financial highlights for fiscal year 2004 are as follows:

- Total net assets increased \$12,077 in fiscal year 2004, which represents a 20.70% increase from fiscal year 2003, as a result of increase in state foundation payments and federal and state grants from the previous year.
- Total assets decreased \$61,999 which represents a 25.73% decrease from the prior year. The decrease is primarily due to decrease in cash held by the School and the reduction of liabilities that were paid during the current year.
- The operating loss reported for fiscal year 2004 in the amount of \$531,889 was \$233,726 more than the operating loss of \$298,163 reported for fiscal year 2003 or a 78.39% larger loss.

### **Using this Financial Report**

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

#### *Statement of Net Assets*

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

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

**OMEGA SCHOOL OF EXCELLENCE**  
**MONTGOMERY COUNTY, OHIO**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
(Unaudited)

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Table 1 provides a summary of the School's net assets for fiscal year 2004 compared with fiscal year 2003.

**TABLE 1**  
**NET ASSETS**

	2004	2003
<b>ASSETS:</b>		
Current and other assets	\$ 128,699	199,144
Capital assets, net	50,259	41,813
Total assets	178,958	240,957
 <b>LIABILITIES:</b>		
Current liabilities	108,547	182,623
Total liabilities	108,547	182,623
 <b>NET ASSETS:</b>		
Invested in capital assets	50,259	41,813
Unrestricted	20,152	16,521
Total net assets	\$ 70,411	58,334

Total net assets of the School increased by \$12,077 or 20.70%. The increase in total net assets from fiscal year 2003 is due in part to increase in state foundation payments and federal and state grants from the previous year. The \$61,999 decrease in total assets is attributable to a decrease in ending cash balances of the School's funds and a decrease in the amount of liabilities that were paid off during the fiscal year ended June 30, 2004. Total liabilities reported at June 30, 2004 decreased by \$74,076 from the amount reported at June 30, 2003, primarily due to the payoff of the line of credit in the amount of \$65,000 and no deferred revenue being reported for fiscal year ending June 30, 2004.

The increase in net assets invested in capital assets results from recognizing current year depreciation of capital assets in the amount of \$10,318, which was offset by current year capital asset acquisition in the amount of \$18,764.



**OMEGA SCHOOL OF EXCELLENCE**  
**MONTGOMERY COUNTY, OHIO**  
Management's Discussion and Analysis  
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(Unaudited)

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Table 2 shows the changes in net assets for the fiscal year ended June 30, 2004, as well as revenue and expense comparisons to fiscal year 2003.

**TABLE 2**  
**CHANGE IN NET ASSETS**

	2004	2003
Operating revenues:		
Foundation payments	\$ 1,224,287	1,075,876
Other operating revenues	32,789	32,198
Non-operating revenues:		
State and federal grants	277,564	200,229
Contributions	267,182	236,267
Interest earnings	-	30
Total revenues	1,801,822	1,544,600
Operating expenses:		
Salaries	992,046	829,828
Fringe benefits	263,658	194,437
Management company fees	40,250	28,000
Building rental	103,032	87,128
Other purchased services	246,541	98,914
Materials and supplies	80,936	123,461
Depreciation	10,318	7,971
Other expenses	52,184	27,607
Non-operating expenses:		
Interest expense	780	8,891
Total expenses	1,789,745	1,406,237
Change in net assets	12,077	138,363
Net assets, beginning of year	58,334	(80,029)
Net assets, end of year	\$ 70,411	58,334

The increase in State foundation payments noted for fiscal year 2004 is the result of an increase in the number of students enrolled in the School as well as increases in the per pupil funding amount for fiscal year 2004. During fiscal year 2003, the School received federal and state start-up grants which it did not receive in 2004. Increases in allocations for various state and federal grants in fiscal year 2004 helped offset the impact of the decrease in the start-up grants. During fiscal year 2004, the School received contributions from various sources in the amount of \$267,182 as compared to \$236,267 in fiscal year 2003.

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For the Fiscal Year Ended June 30, 2004  
(Unaudited)

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Most of the higher salary and benefit expenses reported for fiscal year 2004 results from additional staff positions to accommodate the increased number of students. The School also experienced increased costs related to purchased services and facility rent.

**Capital Assets**

At June 30, 2004 the capital assets of the School consisted of \$82,538 of equipment and leasehold improvements off-set by \$32,279 in accumulated depreciation resulted in net capital assets of \$50,259. The \$8,446 increase in total net capital assets is due to current year depreciation expense of \$10,318 combined with \$18,764 of equipment and leasehold improvements acquired during fiscal year 2004.

See Note 4 of the notes to the basic financial statements for more detailed information on the School's capital assets.

**Line of Credit**

At June 30, 2004, the School had no debt as the line of credit of \$65,000 was paid in full during the year.

See Note 15 of the notes to the basic financial statements for more detailed information on the School's line of credit.

**Contacting the School**

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

Omega School of Excellence  
Attn: Treasurer  
1821 Emerson Avenue  
Dayton, Ohio 45406  
(937) 278-2372

**OMEGA SCHOOL OF EXCELLENCE  
MONTGOMERY COUNTY, OHIO**

Statement of Net Assets

As of June 30, 2004

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**ASSETS:**

**Current Assets:**

Cash and cash equivalents	\$ 21,602
Receivables:	
Accounts	225
Intergovernmental	105,405
Prepaid expenses	<u>1,467</u>
Total current assets	128,699

**Noncurrent Assets:**

Capital assets:	
Capital assets, net of accumulated depreciation	<u>50,259</u>
Total assets	<u>178,958</u>

**LIABILITIES:**

**Current Liabilities:**

Accounts payable	33,014
Accrued wages & benefits payable	36,003
Intergovernmental payable	<u>39,530</u>
Total liabilities	<u>108,547</u>

**NET ASSETS:**

Invested in capital assets, net of related debt	50,259
Unrestricted	<u>20,152</u>
Total net assets	<u>\$ 70,411</u>

See accompanying notes to the financial statements

**OMEGA SCHOOL OF EXCELLENCE**  
**MONTGOMERY COUNTY, OHIO**

Statement of Revenues, Expenses and Changes in Fund Net Assets  
For the Year Ended June 30, 2004

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**OPERATING REVENUES:**

Foundation payments	\$ 1,224,287
Sales	15,745
Other Revenues	<u>17,044</u>
 Total operating revenues	 <u>1,257,076</u>

**OPERATING EXPENSES:**

Salaries	992,046
Fringe benefits	263,658
Purchased services	401,757
Management company fees	40,250
Materials and supplies	80,936
Depreciation	<u>10,318</u>
 Total operating expenses	 <u>1,788,965</u>

Operating loss (531,889)

**NONOPERATING REVENUES (EXPENSES):**

Federal and state grants	277,564
Contributions	267,182
Interest expense	<u>(780)</u>
 Net nonoperating revenues	 <u>543,966</u>

Change in net assets 12,077

Net assets, beginning of year 58,334

Net assets, end of year \$ 70,411

See accompanying notes to the financial statements

**OMEGA SCHOOL OF EXCELLENCE**  
**MONTGOMERY COUNTY, OHIO**

Statement of Cash Flows  
For the Year Ended June 30, 2004

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**DECREASE IN CASH AND CASH EQUIVALENTS:**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Cash received from State of Ohio	\$ 1,224,287
Cash received from sales	17,386
Cash payments to employees for services	(1,214,522)
Cash payments to suppliers for goods and services	(535,040)
Cash received from other revenues	<u>17,044</u>
Net cash used for operating activities	<u>(490,845)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:**

Federal and state grants	259,235
Contributions	267,182
Cash payments to line of credit	(65,000)
Interest payments on line of credit	<u>(780)</u>
Net cash provided by noncapital financing activities	<u>460,637</u>

**CASH FLOWS FROM CAPITAL AND  
RELATED FINANCING ACTIVITIES:**

Payments for capital acquisitions	<u>(18,764)</u>
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NET DECREASE IN CASH AND CASH EQUIVALENTS (48,972)

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 70,574

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 21,602

**RECONCILIATION OF OPERATING LOSS TO NET  
CASH PROVIDED BY OPERATING ACTIVITIES:**

Operating loss	\$ (531,889)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation	10,318
Changes in assets and liabilities:	
Decrease in accounts receivable	1,641
Decrease in prepaid expenses	3,841
Decrease in accounts payable	(15,938)
Increase in accrued wages & benefits payable	11,220
Decrease in compensated absences payable	(4,484)
Increase in intergovernmental payable	<u>34,446</u>
Net Cash Used for Operating Activities	\$ <u><u>(490,845)</u></u>

See accompanying notes to the financial statements

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**OMEGA SCHOOL OF EXCELLENCE**  
**MONTGOMERY COUNTY, OHIO**

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2004

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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 7. 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 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 33 personnel who provide instructional services to 218 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.

**OMEGA SCHOOL OF EXCELLENCE  
MONTGOMERY COUNTY, OHIO**

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**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 present increases (i.e., revenues) and decreases (i.e., 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 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 Schools contract with its Sponsor. The contract between the School and its Sponsor, the Ohio State Board 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.

**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.



**OMEGA SCHOOL OF EXCELLENCE  
MONTGOMERY COUNTY, OHIO**

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2004

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F. Capital assets and depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market value as of the date received. The School maintains a capitalization threshold of \$500. 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 capital assets are depreciated over the remaining useful lives of the related capital assets.

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, 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 2003-2004 school year totaled \$1,501,851.

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 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. At June 30, 2004, the School had no accumulated unused vacation time for any employee.

I. Accrued liabilities payable

The School has recognized certain liabilities on its balance sheet relating to expenses, which are due but unpaid as of June 30, 2004, including:

Wages payable – salary payments made after year-end that were for services rendered in fiscal year 2004. Personnel are paid in 24 equal installments, ending with the first payroll in July, for services rendered during the previous School year. Therefore, a liability has been recognized at June 30, 2004 for the first salary payment made in July 2004 to all employees.

**OMEGA SCHOOL OF EXCELLENCE**  
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Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2004

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Intergovernmental payable – payment for the employer’s share of the retirement contribution (\$5,604), Workers’ Compensation (\$281) and Medicaid (\$522) associated with services rendered during fiscal year 2004, but were not paid until the subsequent fiscal year. The Ohio Department of Education conducts reviews of the enrollment data and full-time equivalency (FTE) calculations made by 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 overpayment to the school in the amount of \$33,123. This amount is reflected as an intergovernmental payable at June 30, 2004.

J. Net Assets

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

K. Operating and non-operating revenues and expenses

Operating revenues are those revenues that are generated directly by the School's primary mission. For the School, operating revenues include foundation payments received from the State of Ohio. Operating expenses are necessary costs incurred to support the School's primary mission, including depreciation.

Non-operating revenues and expenses are those that are not generated directly by the School's primary mission. Various state and federal grants, as well as interest revenue and expense comprise the non-operating revenues and expenses of the School.

L. Federal tax exemption status

The School is a non-profit organization that has been determined by the Internal Revenue Service to be exempt from federal income taxes a tax-exempt organization under Section 501 (c)(3) of the Internal Revenue Code.

M. 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.

**OMEGA SCHOOL OF EXCELLENCE**  
**MONTGOMERY COUNTY, OHIO**

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2004

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3. Change in Accounting Principles:

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

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

4. Cash and Cash Equivalents:

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.

During fiscal year 2004, the School did not have any investments.

**Deposits:** At fiscal year end the carrying amount of the School's cash and deposits were \$21,602 and the bank balance was \$98,021, which was fully insured by federal depository insurance. Although all state statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School to a successful claim by the Federal Deposit Insurance Corporation.

**OMEGA SCHOOL OF EXCELLENCE**  
**MONTGOMERY COUNTY, OHIO**  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2004

5. Receivables:

Receivables at June 30, 2004, 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:

Receivable	Amount
Title II-A	\$ 16,122
Title I	49,155
IDEA Part B	20,234
Capital Improvement	10,643
Title V	1,085
Title II - D	1,748
Lunchroom Reimbursement	6,418
Total Intergovernmental Receivables	\$ 105,405

6. Capital Assets:

A summary of the School's capital assets at June 30, 2004, follows:

	Balance 6/30/2003	Additions	Deductions	Balance 6/30/2004
<b><u>Capital Assets, being depreciated</u></b>				
Leasehold Improvements	\$ -	12,843	-	12,843
Furniture and Equipment	63,774	5,921	-	69,695
<b><u>Less: Accumulated Depreciation</u></b>				
Furniture and Equipment	(21,961)	(10,318)	-	(32,279)
<b>Capital Assets, net</b>	\$ 41,813	8,446	-	50,259

The School takes a full year of depreciation in the year of acquisition. Depreciation expense for the fiscal year ended June 30, 2004 was \$10,318.

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 2004, 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, OHIO**

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2004

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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 2004, the annual cost of medical insurance is based on gender and age.

8. Defined Benefit Pension Plans:

A. School Employees Retirement System

**Plan Description.** The School contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. The School Employees Retirement System 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 SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (614) 222-5853.

**Funding Policy.** Plan members are required to contribute 10% of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current is 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' Retirement Board. The School's contributions to SERS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$10,446, \$14,059 and \$3,342, respectively, equal to 94.61% for 2004 and 100% for 2003 and 2002.

B. State Teachers Retirement System

The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

**Plan Options** – New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are

**OMEGA SCHOOL OF EXCELLENCE  
MONTGOMERY COUNTY, OHIO**

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2004

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allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. 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.

**DB Plan Benefits** – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31<sup>st</sup> year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

**DC Plan Benefits** – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. 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.

**Combined Plan Benefits** – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member’s defined benefit is determined by multiplying 1% of the member’s final average salary by the member’s years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio’s public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or another public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of

**OMEGA SCHOOL OF EXCELLENCE  
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Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2004

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reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

Benefits are increased annually by 3% of the original base amount for Defined Benefit Plan participants.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A Defined Benefit 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 members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. 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.

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2004, were 10% of covered payroll for members and 14% for employers. The School's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$128,792, \$101,098 and \$41,399, respectively; equal to 96.09% for 2004 and 100% for 2003 and 2002.

STRS Ohio issues a stand-alone financial report. Copies of STRS Ohio's 2004 *Comprehensive Annual Financial Report* will be available after January 1, 2005. Additional information or copies of STRS Ohio's 2004 *Comprehensive Annual Financial Report* can be requested by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at [www.strs.org](http://www.strs.org).

9. Postemployment Benefits:

The Ohio Revised Code gives SERS 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. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2004, the allocation rate is 4.91%. 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 year 2004, the minimum pay has

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For the Fiscal Year Ended June 30, 2004

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been established at \$25,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the School, the amount to fund health care benefits, including the surcharge, was \$6,773 for fiscal year 2004.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses, before premium deductions. Gross expenses for health care at June 30, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, the Retirement System's net assets available for payment of health care benefits were \$300.8 million. The number of benefit recipients currently receiving health care benefits is approximately 62,000.

State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care coverage to retirees who participated in the Defined Benefit or Combined Plans and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code (R.C.), the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All 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 eligible benefit recipients, spouses and dependents. By Ohio law, health care benefits are not guaranteed and the cost of coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal years ended June 30, 2004, and June 30, 2003, the Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion on June 30, 2004. For the School, this amount equaled \$11,474 during the 2004 fiscal year.

For the fiscal year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000. There were 111,853 eligible benefit recipients.

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 ten to twenty days of vacation per fiscal year, depending upon length of service. 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.

At June 30, 2004, there are no compensated absences recorded in the statement of net assets.



**OMEGA SCHOOL OF EXCELLENCE**  
**MONTGOMERY COUNTY, OHIO**

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2004

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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 noncancellable, 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 2005 is \$108,000.

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 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 2005, as a result of such a review.

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 courts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed and the case was heard on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the State public educational system and this matter was sent to the Ohio Supreme Court. The effect of this suit, if any, on the School is not presently determinable.

13. State School Funding Decision:

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

**OMEGA SCHOOL OF EXCELLENCE  
MONTGOMERY COUNTY, OHIO**

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2004

The Supreme Court relinquished jurisdiction over the case and directed "... the Ohio General Assembly to enact a school funding scheme that is thorough and efficient ...". The School is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

14. Related Parties:

The Board President, Reverend Daryl Ward, is the husband of the Omega School Director, Reverend Vanessa Ward. 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 2004, the School contracted with PACE School Resource Center, a consulting service of PACE, for instructional, financial management, and basic business services. Reverend Daryl Ward abstained from voting on the contract.

During the fiscal year, the School received a \$25,000 donation from Board member Matthew O. Diggs, Jr. for payoff the line-of-credit.

15. Line of Credit:

On July 10, 2002, the School borrowed \$90,000 from Fifth-Third Bank. This loan was an unsecured 12-month loan at prime rate. Payments are to be made on a monthly basis beginning August 10, 2003. The purpose of this loan was to help the School meet cash flows purposes.

	Balance 6/30/2003	Additions	Reductions	Balance 6/30/2004
Line of Credit	\$ 65,000	-	(65,000)	-

16. Other Purchased Services:

During the year ended June 30, 2004, other purchased service expenses for services rendered by various vendors were as follows:

Professional and technical services	\$ 72,549
Property services - rent	144,503
Pupil transportation	3,465
Travel reimbursement	11,585
Communications	17,590
Contracted or trade services	71,692
Other	80,373
	\$ 401,757

**OMEGA SCHOOL OF EXCELLENCE  
MONTGOMERY COUNTY, OHIO**

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2004

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17. Fiscal Services:

The School entered into a contract with PACE School Resource Center (SRC) to provide basic treasurer and financial management services for the period September 16, 2003 to November 30, 2003 and the Keys to Improving Dayton Schools School resource Center for the period December 1, 2003 to June 30, 2005. The fee for the services is \$3,500 per month.

18. Subsequent Event:

In a letter dated January 21, 2005, the School formally appealed the \$33,123 State Foundation overpayment. The appeal is still pending.

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## **Auditor of State Betty Montgomery**

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

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

To the Governing Board:

We have audited the financial statements of the business-type activities of the Omega School of Excellence (the School) as of and for the year ended June 30, 2004, which collectively comprise the School's basic financial statements and have issued our report thereon dated March 7, 2005, wherein we noted a qualified opinion for understating liabilities due to omitting a liability for compensated absences. We also noted the School implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. 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 the Comptroller General of the United States' *Government Auditing Standards*.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the School's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2004-001 and 2004-002.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable conditions 2004-001 and 2004-002 listed above to be material weaknesses. In a separate letter to the School's management dated March 7, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

### **Compliance and Other Matters**

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the School's management dated March 7, 2005, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the finance/audit committee, management, and the Governing Board. It is not intended for 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

March 7, 2005

**OMEGA SCHOOL OF EXCELLENCE  
MONTOMGERY COUNTY**

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

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING 2004-001**

**Unreconciled Cash Accounts**

The school failed to perform monthly payroll bank reconciliations from July 2003 through June 2004. The general account's bank balance reconciliation reflected \$1,967.87 less than the book balance. This source of this variance was not determined. This difference was later determined to include \$50.00 in missing petty cash. The remainder of the variance has not been identified. The financial statements have been reduced by this shortage.

Failure to reconcile the payroll clearing account resulted in errors and/or discrepancies being undetected. The School should implement policies and procedures to:

- ensure monthly reconciliations of all depository accounts are performed timely;
- and that there are proper reviews of the reconciliations.

Implementation of these procedures will assist in detecting or preventing misappropriations and provide the School with accurate and timely financial information needed for decision making purposes.

**FINDING 2004-002**

**Sick Leave**

The School has not tracked the use and accumulation of leave balances to include sick, personal, and vacation. The Uniform Staff Payroll System, which is available to the School, can account for these balances but the Treasurer's office is not currently utilizing the program. As a result, no liability has been disclosed on the school's financial statements.

Employees could, as a result of this weakness, receive unearned benefits, or lose benefits. The users of the financial statements could make incorrect conclusions regarding the school's financial condition.

The Treasurer should contact MDECA and obtain the required training to utilize the Uniform Staff Payroll System. Accurate leave accruals, usage, and balances should be maintained by the school.

**OMEGA SCHOOL OF EXCELLENCE  
MONTOMGERY COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b>Explain:</b>
2003-001	Line of Credit with \$65,000 Outstanding at 6/30/03 contrary to Ohio Rev. Code Section 3314.08(J) (1)	Yes	





**Auditor of State  
Betty Montgomery**

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Telephone 614-466-4514  
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Facsimile 614-466-4490

**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  
JUNE 2, 2005**