



**OMEGA SCHOOL OF EXCELLENCE COMMUNITY SCHOOL
MONTGOMERY COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2001



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**OMEGA SCHOOL OF EXCELLENCE
MONTGOMERY COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

Omega School of Excellence
Montgomery County
1821 Emerson Avenue
Dayton, Ohio 45406-1006

To the Governing Board:

We have audited the accompanying balance sheet of the Omega School of Excellence (the School), Montgomery County, as of June 30, 2001, and the related Statement of Revenues, Expenses, and Changes in Retained Earnings/ Accumulated Deficit 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 Omega School of Excellence, Montgomery County, as of June 30, 2001, 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.

The accompanying financial statements have been prepared assuming the School will continue as a going concern. As shown in the financial statements, the School has incurred an operating loss in the amount of \$578,045 for the year ended June 30, 2001, has a working capital deficiency of \$205,344 as of June 30, 2001 and accumulated a deficit retained earnings of \$178,137. Accordingly, there is substantial doubt about the School's ability to continue as a going concern. Management's plans in regards to these matters are discussed in Note 17. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2001, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Jim Petro
Auditor of State

December 20, 2001

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**OMEGA SCHOOL OF EXCELLENCE
MONTGOMERY COUNTY**

**BALANCE SHEET
As of JUNE 30, 2001**

ASSETS

Current Assets:	
Cash and cash equivalents	\$ 42,793
Receivables:	
Accounts	603
Intergovernmental	<u>44,285</u>
Total Current Assets	87,681
Non-Current Assets:	
Furniture and Equipment, Net	<u>47,207</u>
Total Assets	<u><u>134,888</u></u>

LIABILITIES AND EQUITY

Current Liabilities:	
Accounts Payable	14,785
Accrued Wages Payable	31,656
Compensated Absences Payable	769
Intergovernmental Payable	15,815
Line of Credit Payable	<u>230,000</u>
Total Current Liabilities	<u>293,025</u>
Equity:	
Contributed Capital	20,000
Accumulated Deficit	<u>(178,137)</u>
Total Accumulated Deficit and Contributed Capital	<u>(158,137)</u>
Total Liabilities and Equity	<u><u>\$ 134,888</u></u>

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 / ACCUMULATED DEFICIT
FOR THE YEAR ENDED JUNE 30, 2001**

Operating Revenues:	
Foundation Payments	\$ 525,715
Disadvantaged Pupil Impact Aid	6,668
Other Revenue	<u>38,528</u>
Total Operating Revenues	<u>570,911</u>
Operating Expenses:	
Salaries	558,989
Fringe Benefits	139,286
Purchased Services	221,098
Materials and Supplies	214,253
Depreciation	6,744
Other Operating Expenses	<u>8,586</u>
Total Operating Expenses	<u>1,148,956</u>
Operating Loss	<u>(578,045)</u>
Non-Operating Revenues:	
Federal and State Subsidies	144,573
Contributions	216,421
Interest	<u>364</u>
Total Non-Operating Revenues	<u>361,358</u>
Net Loss	(216,687)
Retained Earnings at Beginning of Year	<u>38,550</u>
Accumulated Deficit at End of Year	<u><u>(\$178,137)</u></u>

he 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, 2001**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash Received from State of Ohio	\$532,383
Cash Received from Sales	7,763
Cash Payments to Employees for Services	(650,035)
Cash Payments to Suppliers for Goods and Services	(420,566)
Cash Received from Other Revenues	30,162
Cash Payments for Other Expenses	<u>(8,586)</u>

Net Cash Used for Operating Activities (508,879)

Cash Flows from Noncapital Financing Activities

Federal and State Subsidies	100,288
Proceeds from Line of Credit	230,000
Contributions	<u>216,421</u>

Net Cash Provided by Noncapital Financing Activities 546,709

Cash Flows from Capital and Related Financing Activities

Payments for Capital Acquisitions	<u>(33,951)</u>
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Cash Flows from Investing Activities

Interest	<u>364</u>
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Net Increase in Cash and Cash Equivalents 4,243

Cash and Cash Equivalents at Beginning of Year 38,550

Cash and Cash Equivalents at End of Year 42,793

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

Operating Loss (578,045)

**Adjustments To Reconcile Operating Loss to Net Cash
Used for Operating Activities**

Depreciation and Amortization 6,744

Changes in Assets and Liabilities

(Increase) in Accounts Receivable	(603)
Increase in Accounts Payable	14,785
Increase in Intergovernmental Payable	15,815
Increase in Accrued Wages	31,656
Increase in Compensated Absences Payable	<u>769</u>

Total Adjustments 69,166

Net Cash Used for Operating Activities (\$508,879)

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, 2001**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

The Omega School of Excellence (the School) is a state nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to address the needs of students in grades 5 through 6. 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.

The School was approved for operation under contract with the Ohio State Board of Education (the Sponsor) for a period of five years commencing with fiscal year July 1, 2000 through June 30, 2005 after which, the School must apply for an additional contract with the Sponsor. 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 self-appointing eight-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 School's Code of Regulations specifies that vacancies that arise on the Board be filled by the appointment of a successor member by a majority vote of the then existing members. The School has one instructional/support facility staffed by one director, thirteen certified full-time teaching personnel and five non-certified support personnel who provide services to an enrollment of 111 students. The Director and Treasurer handle administrative responsibilities.

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**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Equity (i.e., net total assets) is segregated into contributed capital and accumulated deficit components. The operating statement presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

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

The 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.

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 School and its Sponsor requires a detailed school budget for each year of the contract, however the budget does not have to follow the provisions of Ohio Rev. Code Section 5705.

The School's Board adopts a formal budget at the beginning of the school year. Spending limits are set based on projected revenue from the State of Ohio and other known sources. The Board's adoption of the budget states that actual expenditures are "not to exceed" budget amounts. The School Principal and Treasurer are responsible for ensuring that purchases are made within these limits. However, any variances from the budgetary amounts are presented to the Board for subsequent approval.

D. Cash and Cash Equivalents

All monies received by the School are maintained in an interest bearing checking account.

**OMEGA SCHOOL OF EXCELLENCE
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$500. The School does not have 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 fixtures, textbooks, and equipment is computed using the straight-line method over estimated useful lives of five to ten years. Improvements to fixed assets are depreciated over the remaining useful lives of the related fixed assets.

G. Intergovernmental Revenues

The School currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid (DPIA) Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is 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.

The School also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the school was awarded \$50,000 to offset start-up costs of the School. Revenue received from this program is recognized as non-operating revenue in the accompanying financial statements.

Amounts awarded under the above named programs for the 2001 school year totaled \$532,383.

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. Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the

**OMEGA SCHOOL OF EXCELLENCE
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

School has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year-end, taking into consideration any limits specified in the School's termination policy. The School records a liability for accumulated unused sick leave for classified and certified employees with at least ten years of service.

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, 2001, including:

Line of Credit Payable - the Mathile Family Foundation extended a \$230,000 limited payment guaranty line of credit with Fifth Third Bank for the School. The School made interest payments on the loan during school year 2001 and is hopeful of receiving written assurance January 2002 of the Mathile Family Foundation's intention to pay off \$50,000 of the loan each year until depleted.

Accrued Wages Payable – salary payments made after year-end that were for services rendered in fiscal year 2001. Teaching personnel are paid year around, however payments during the summer months were earned as of June 30. Therefore, a liability has been recognized at June 30, 2001 for all salary payments made to teaching personnel during the summer of 2001.

Intergovernmental Payable – payment for the employer's share of the retirement contribution (\$10,150) and workers' compensation (\$5,665) associated with services rendered during fiscal year 2001, but were not paid until the subsequent fiscal year.

J. 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 as a tax-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.

3. COMPLIANCE

A. Legal Compliance

The line of credit, described in Note 15, is in violation of debt limitations for Community Schools. Community School are permitted to issue notes in anticipation of State revenue identified in Rev. Code Section 3314.08 (J), providing the debt matures no later than end of the fiscal year in which such money was borrowed. The line of credit was not paid off by June 30, 2001, and has no maturity date.

**OMEGA SCHOOL OF EXCELLENCE
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

4. DEPOSITS AND INVESTMENTS

The following information classifies deposits by category of risk as defined in GASB Statement No. 3 "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements."

At fiscal year end, the School had \$50 in undeposited cash on hand which is included on the balance sheet of the School as part of "equity in pooled cash and cash equivalents".

Deposits: At June 30, 2001, the carrying amount of the School's deposits was \$42,743 and the bank balance was \$95,234. The entire bank balance was covered by federal depository insurance.

5. INTERGOVERNMENTAL RECEIVABLE

All receivables are considered collectible in full due to the stable condition of State programs, and the fiscal year guarantee of federal funds. Intergovernmental receivables at June 30, 2001 consisted of the following:

Receivable	Amount
Eisenhower Grant	\$ 101
Title 1 Grant	33,545
Title VI Grant	677
Drug Free Grant	844
Title VI-R Grant	4,647
Lunchroom Reimbursement	<u>4,471</u>
Total Intergovernmental Receivables	<u>\$44,285</u>

6. FIXED ASSETS

A summary of the School's fixed assets at June 30, 2001, follows:

Furniture and Equipment	\$53,951
Less: Accumulated Depreciation	<u>(6,744)</u>
Net Fixed Assets	<u>\$47,207</u>

The School takes a full year of depreciation in the year of acquisition.

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 2001, the School contracted with Harcum-Hyre Insurance Agency, Inc. who provided liability insurance for the School through Nationwide Insurance. General liability coverage provides \$2,000,000 per occurrence and \$5,000,000 in the aggregate with no deductible.

**OMEGA SCHOOL OF EXCELLENCE
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(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 Insurance 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 2001, the annual cost of medical insurance is based on sex and age. The employer's (school's) annual cost for dental insurance is \$736 for family and \$285 for single coverage.

8. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer public employee retirement system administered by the School Employees Retirement System Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3684 or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2001, 4.2 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 statutory maximum amounts, by the SERS' Retirement Board. The School's required contribution for pension obligations to SERS for the fiscal year ended June 30, 2001, was \$4,372. There was no unpaid contribution for fiscal year 2001.

B. State Teachers Retirement System

The School contributes to the State Teachers Retirement System of Ohio (STRS Ohio), which is a cost-sharing, multiple-employer public employee retirement system.

**OMEGA SCHOOL OF EXCELLENCE
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

STRS Ohio is a statewide retirement plan for certified teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency wholly controlled, managed and supported in whole, or in part, by the state or any political subdivision thereof. Any member who has 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 may retire. The maximum 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 years' salaries. The annual allowance is calculated by using a base percentage of 2.1% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st 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.

Legislation passed in April 2000 with a July 1999 effective date provided an adjustment for retirees whose benefits have not kept pace with the rate of inflation. The legislation also changed the formula for calculating the formula benefit. The formula benefit increased to 2.2% from 2.1% per year for all years up to 30 years. For members with 35 or more years of earned Ohio service, the first 30 years will be calculated at 2.5% instead of 2.2%. For earned Ohio service over 30 years, the formula will remain as current law, which provides an escalating formula of 2.5% for the 31st year, 2.6% for the 32nd, 2.7% for the 33rd year, etc., until 100% of final average salary is reached.

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.

A retiree of STRS Ohio or other Ohio 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 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.

Retirement benefits are annually increased by the greater of the amount of the change on the Consumer Price Index (CPI) or the cumulative CPI increases since retirement, less previous cost-of-living increases, up to a maximum of 3% of the original base benefit. The plan offers comprehensive health care benefits to retirees and their dependents. Coverage includes hospitalization, physicians' fees, drugs and partial reimbursement of monthly Medicare premiums.

A member with five or more years' credited service who becomes disabled is entitled to a disability benefit. Survivor benefits are available to eligible spouses and dependents of active members who die before retirement. A death benefit of \$1000 is payable to the beneficiary of each deceased retired member. Additional death benefit coverage of \$1000 or \$2000 can be purchased. Various other benefits are available to members' beneficiaries.

Benefits are established by Chapter 3307, Revised Code.

**OMEGA SCHOOL OF EXCELLENCE
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

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

For the fiscal year ended June 30, 2001, plan members were required to contribute 9.3 percent of their annual covered salaries. The School was required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School's required contributions for pension obligations to STRS for the fiscal year ended June 30, 2001 was \$50,780, of which \$6,347 was recorded as a liability.

STRS Ohio issues a stand-alone financial report. Copies of STRS Ohio's 2000 *Comprehensive Annual Financial Report* will be available after January 1, 2001, and can be requested by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, or by calling (614) 227-4090.

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.

The Retirement Board allocates employer contributions to the Health Care Reserve Fund from which health care benefits are paid. The Health Care Reserve Fund allocation for the year ended June 30, 2001, and after, will be 4.5 percent of covered payroll. For the School, this amount equaled \$24,054 during the 2001 fiscal year.

The balance in the Health Care Reserve Fund was \$3.419 billion on June 30, 2000, (the latest information available). For the year ended June 30, 2000, net health care costs paid by STRS Ohio were \$283,137,000. There were 99,011 eligible benefit recipients.

For SERS, the Ohio Revised Code gives the discretionary authority to provide post-retirement 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.

**OMEGA SCHOOL OF EXCELLENCE
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

9. POSTEMPLOYMENT BENEFITS (Continued)

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, 2001, the allocation rate is 9.8 percent, an increase of 1.3 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 2001, the minimum pay has been established at \$12,400. For the School, the amount to fund health care benefits, including the surcharge, was \$10,996 for fiscal year 2001.

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, 2000, were \$140,696,340 and the target level was \$211.0 million. At June 30, 2000, the Retirement System's net assets available for payment of health care benefits of \$252.3 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 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.

B. Health Care Benefits

The District provides life insurance and accidental death and dismemberment insurance to employees through Unum Life Insurance Company. The District provides health insurance coverage through United Health Care of Ohio, Inc. Employee share of the total premium ranges between five percent to twenty percent of the monthly premium up to the cap. The premium varies with each employee depending on the terms of their contract.

**OMEGA SCHOOL OF EXCELLENCE
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

11. OPERATING LEASE

The School leases a 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 renews automatically, unless cancelled by either party. The lease payment includes the cost of utilities, maintenance, custodial and grounds services. The minimum lease payments are as follows:

Fiscal Year	Amount
2002	\$ 83,316
2003	100,123
2004	<u>122,443</u>
Total	<u>\$305,882</u>

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 (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 review resulted in a positive adjustment of \$1,300 to state funding, for fiscal year 2001. The adjustment should be received in March 2002.

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. The effect of this suit, if any, on the School is not presently determinable.

13. STATE SCHOOL FUNDING DECISION

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

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

**OMEGA SCHOOL OF EXCELLENCE
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

13. STATE SCHOOL FUNDING DECISION (Continued)

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

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of December 20, 2001, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the court granted this motion for reconsideration. The Court may re-examine and determine any issue upon such reconsideration.

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

14. PURCHASED SERVICES

For the fiscal period July 1, 2000, through June 30, 2001, purchased service expenses were payments for services rendered by various vendors as follows:

Staff Development:	
KIPP Training	\$18,929
Fordham Grant	17,670
Other	<u>5,511</u>
Total Staff Development	<u>42,110</u>
Administrative Expenses:	
Postage	936
Advertising	4,835
Phone and Internet Lines	4,260
Legal Services	9,227
Other	<u>8,866</u>
Total Administrative Expenses	<u>28,124</u>
Building and Equipment Maintenance and Repair	4,011
Building Lease/Gym Rental	54,413
Security Services	407
MDECA Software License	6,576
Student Field Trips	28,237
Transportation	47,220
Community School Design/Development	<u>10,000</u>
Total Purchased Services	<u><u>\$221,098</u></u>

**OMEGA SCHOOL OF EXCELLENCE
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

15. LINE OF CREDIT

During July 2000, the Omega School of Excellence entered into an agreement with Fifth Third Bank for a line of credit of \$230,000. The line of credit has no maturity date. This loan was co-signed by the Mathile Family Foundation. As of June 30, 2001, the entire line has been drawn down, and interest in the amount of \$5,661 has been paid. The principal balance still remains, however it is the opinion of the School that the line of credit will be paid by the Mathile Family Foundation in the near future.

16. RELATED PARTIES

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

Reverend Vanessa Ward's salary for Fiscal Year 2001 was \$60,000 and the Board paid her share of Medicare, and STRS. The STRS payment resulted in an additional retirement obligation, paid by the school, of \$7,000. For Fiscal 2002, the Director's salary is set at \$66,000 with the Board continuing to pay her share of Medicare, and STRS. The additional obligation resulting from the payment on the STRS amounts to an additional \$7,600 in salary. The Director's husband and Board President, Reverend Daryl Ward, abstains from voting on his wife's salary.

17. MANAGEMENT'S PLANS REGARDING ACCUMULATED DEFICIT

At June 30, 2001, the School's accumulated deficit was \$178,137. The School's Governing Board is working with the Mathile Family Foundation to obtain their assurance of forgiving \$50,000 of the \$230,000 line of credit debt each year until fully depleted. In addition, the Governing Board is continuing to solicit contributions to eliminate the deficit.

The School's long range plans are to seek increased enrollment through the development and implementation of an aggressive marketing strategic plan. The School began with fifth and sixth grades and has added the seventh grade for school year 2002. Their long range plans are to administer grades five through eight by school year 2003.

18. CONTRIBUTED CAPITAL

The School has recorded \$20,000 in contributed capital for fixed assets consisting of computer equipment donated by various parties.



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

Omega School of Excellence
Montgomery County
1821 Emerson Avenue
Dayton, Ohio 45406-1006

To the Governing Board:

We have audited the financial statements of the Omega School of Excellence (the School), Montgomery County, as of and for the year ended June 30, 2001, and have issued our report thereon dated December 20, 2001, in which we noted the School has an accumulated deficit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed 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 2001-10357-001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School in a separate letter dated December 20, 2001.

Omega School of Excellence
Montgomery County
Report of Independent Accountants 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.

Jim Petro
Auditor of State

December 20, 2001

**OMEGA SCHOOL OF EXCELLENCE
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2001**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Non-Compliance Citations

Finding Number	2001-10357-001
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Ohio Revised Code Section 3314.08(J) 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.

The School did not comply with the above requirement. The School entered into a line of credit July 20, 2000, and the entire principal amount of \$230,000 was still outstanding at June 30, 2001.



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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
FEBRUARY 19, 2002**