



**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 45406-1006

To the Governing Board:

We have audited the accompanying balance sheet of Omega School of Excellence, Montgomery County, (the School), as of June 30, 2002, and the related Statement of Revenues, Expenses, and Changes in 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 the Omega School of Excellence, Montgomery County, as of June 30, 2002, 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 \$482,818 for the year ended June 30, 2002, has a working capital deficiency of \$124,002 as of June 30, 2002 and an accumulated deficit retained earnings of \$80,029. Accordingly, there is substantial doubt about the School's ability to continue as a going concern. Management's plan in regards to this matter is 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 February 7, 2003, 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.

The accompanying federal awards expenditures schedule is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements referred to above. We subjected this information to the auditing procedures applied in the audit of the financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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

**Betty Montgomery**  
Auditor of State

February 7, 2003

**OMEGA SCHOOL OF EXCELLENCE  
MONTGOMERY COUNTY**

**BALANCE SHEET  
AS OF JUNE 30, 2002**

**ASSETS**

**Current Assets**

Cash	\$13,678
Receivables:	
Accounts	806
Intergovernmental	46,644
Prepaid Items	<u>127</u>
Total Current Assets	61,255

**Non-Current Assets**

Furniture and Equipment, Net	<u>43,973</u>
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<b>Total Assets</b>	<b><u><u>\$105,228</u></u></b>
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**LIABILITIES AND EQUITY**

**Current Liabilities**

Accounts Payable	\$32,377
Accrued Wages Payable	21,994
Intergovernmental Payable	15,886
Line of Credit Payable	<u>115,000</u>
Total Current Liabilities	<u>185,257</u>

**Equity**

Accumulated Retained Earnings Deficit	<u>(80,029)</u>
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<b>Total Liabilities and Equity</b>	<b><u><u>\$105,228</u></u></b>
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*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 ACCUMULATED DEFICIT  
FOR THE YEAR ENDED JUNE 30, 2002**

<b>Operating Revenues</b>	
Foundation Payments	\$804,903
Disadvantaged Pupil Impact Aid	11,215
Sales	11,926
Other Revenues	<u>33,626</u>
 Total Operating Revenues	 <u>861,670</u>
 <b>Operating Expenses</b>	
Salaries	783,996
Fringe Benefits	213,056
Purchased Services	168,317
Materials and Supplies	140,748
Depreciation	7,246
Other Operating Expenses	<u>31,125</u>
 Total Operating Expenses	 <u>1,344,488</u>
 <b>Operating Loss</b>	 <u>(482,818)</u>
 <b>Non-Operating Revenues</b>	
Federal and State Grants	332,417
Contributions (See note 14)	228,320
Interest	<u>188</u>
 Total Non-Operating Revenues	 <u>560,925</u>
 <b>Net Income</b>	 <u>78,107</u>
 Accumulated Deficit at Beginning of Year (restated - see note 20)	 <u>(158,136)</u>
 <b>Accumulated Deficit at End of Year</b>	 <u><u>(\$80,029)</u></u>

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



**OMEGA SCHOOL OF EXCELLENCE  
MONTGOMERY COUNTY**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2002**

**Increase (Decrease) in Cash**

**Cash Flows from Operating Activities**

Cash Received from State of Ohio	\$816,118
Cash Received from Sales	11,926
Cash Payments to Employees for Services	(1,007,410)
Cash Payments to Suppliers for Goods and Services	(291,601)
Cash Received from Other Revenues	33,423
Cash Payments for Other Expenses	<u>(146,125)</u>

Net Cash Used For Operating Activities (583,669)

**Cash Flows from Noncapital Financing Activities**

Federal and State Grants	330,058
Contributions	<u>228,320</u>

Net Cash Provided By Noncapital Financing Activities 558,378

**Cash Flows from Capital and Related Financing Activities**

Payments for Capital Acquisitions	<u>(4,012)</u>
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**Cash Flows from Investing Activities**

Interest	<u>188</u>
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Net Decrease in Cash (29,115)

Cash at Beginning of Year 42,793

Cash at End of Year \$13,678

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

Operating Loss (\$482,818)

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

Depreciation 7,246

**Change in Assets and Liabilities**

Increase in Accounts Receivable	(203)
Increase in Prepaids	(127)
Increase in Accounts Payable	17,592
Decrease in Accrued Wages	(9,661)
Increase in Intergovernmental Payable	71
Decrease in Notes Payable	(115,000)
Decrease in Compensated Absences	<u>(769)</u>

Net Cash Used For Operating Activities (\$583,669)

*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 FISCAL YEAR ENDED JUNE 30, 2002**

**1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY**

The Omega School of Excellence (the "School") is a 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 the direction of a six-member Governing Board. The Governing Board is responsible for carrying out the provisions of the contract which include, but are not limited to state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Governing Board controls the School's one instructional/support facility staffed by 5 administrative, 3 non-certified and 16 certified full-time equivalent teaching personnel who provide instructional services to 155 students.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Omega School of Excellence 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 statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the School's accounting policies are described below.

**A. Basis of Presentation**

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

**B. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

**OMEGA SCHOOL OF EXCELLENCE  
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

The full accrual basis of accounting is used 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 the Ohio Revised Code chapter 5705, unless specifically provided by the School's contract with its Sponsor. The contract between Omega School of Excellence and its Sponsor, Ohio State Board of Education, does not prescribe a budgetary process for the School.

**D. Cash**

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

**E. Estimates**

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

**F. Fixed Assets and Depreciation**

Fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the dates received. The School maintains a capitalization threshold of five hundred dollars. The School does not possess any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

**OMEGA SCHOOL OF EXCELLENCE  
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**G. Intergovernmental Revenues**

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

The Omega School of Excellence also participates in the Charter School Grant Program through the Ohio Department of Education. Under this program, Omega School of Excellence was awarded \$150,000 during the 2001-2002 fiscal year.

**H. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School will compensate the employees for the benefits through paid time off or some other means. The School records a liability for accumulated unused vacation time when earned for all employees.

**I. Accrued Liabilities**

Obligations incurred but unbilled prior to June 30, 2002, are reported as accrued liabilities in the accompanying financial statements.

**3. ACCOUNTABILITY AND COMPLIANCE**

**A. Accountability**

The Enterprise Fund had an accumulated deficit of \$80,029 at June 30, 2002. This is the second year that the School has been in operation. The Governing Board is monitoring costs and has successfully sought contributions for payment on the line of credit payable. See Footnote 17 for additional information.

**B. Compliance**

The line of credit, described in Note 15, is in violation of debt limitations for Community Schools. Community Schools are permitted to issue notes in anticipation of State revenue identified in Rev. Code Section 3314.08(D), providing the debt matures no later than the end of the fiscal year in which such money was borrowed. The line of credit was not paid off by June 30, 2002.

**OMEGA SCHOOL OF EXCELLENCE  
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**4. DEPOSITS AND INVESTMENTS**

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

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

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

During fiscal year 2002, Omega School of Excellence did not have any investments.

**Deposits:** At fiscal year end the carrying amount of the School's cash and deposits were \$13,678 and the bank balance was \$68,117. The entire bank balance was covered by federal depository insurance.

**5. RECEIVABLES**

Receivables at June 30, 2002, 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:

<b>Receivable</b>	<b>Amount</b>
Eisenhower Grant	\$231
Title I Grant	20,624
Title VI Grant	1,094
Drug Free Grant	1,680
Title VI-R Grant	7,447
Lunchroom Reimbursement	5,775
State Foundation	6,042
Other	3,751
Total Intergovernmental Receivables	<u>\$46,644</u>

**6. FIXED ASSETS**

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

Furniture and Equipment	\$57,963
Less: Accumulated Depreciation	<u>(13,990)</u>
Net Fixed Assets	<u>\$43,973</u>

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

**OMEGA SCHOOL OF EXCELLENCE  
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**7. RISK MANAGEMENT**

**A. Property and Liability**

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2002, the School was covered through Nationwide Insurance for general liability. Coverage provided \$2,000,000 per occurrence and \$5,000,000 in the aggregate with no deductible.

**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 2002, the annual cost of medical insurance is based on sex and age. The 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 District contributes to the School Employees Retirement System of Ohio (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 State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 45 N. Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2001, 4.2 percent was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2002, and 2001 were \$3,342 and \$4,372, respectively. There were no unpaid contributions for either fiscal year.

**OMEGA SCHOOL OF EXCELLENCE  
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**8. DEFINED BENEFIT PENSION PLANS (Continued)**

**B. State Teachers Retirement System**

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

For the fiscal year ended June 30, 2002, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District 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 District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002 and 2001 were \$41,399 and \$50,780, respectively; 88.86 percent has been contributed for fiscal year 2002 and 100 percent for fiscal year 2001. \$4,613 represents the unpaid contribution for fiscal year 2002 and is recorded as an intergovernmental liability.

**9. POST EMPLOYMENT BENEFITS**

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2002, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$19,610 for fiscal year 2002.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001, (the latest information available) the balance in the Fund was \$3.256 billion. For the year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

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



**OMEGA SCHOOL OF EXCELLENCE  
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**9. POST EMPLOYMENT 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, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll, a decrease of 1.26 percent from fiscal year 2001. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay was established at \$12,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2002 fiscal year equaled \$6,576.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2001 (the latest information available), were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**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 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.

**OMEGA SCHOOL OF EXCELLENCE  
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(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 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 payments are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2003	100,123
2004	122,443
Total	<u>\$222,566</u>

**12. CONTINGENCIES**

**A. Grants**

The School received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the fund. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2002.

**B. Pending 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.

**C. State Funding**

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The review resulted in the discovery of an underpayment to the School in the amount of \$6,042. This amount is reflected as a State Foundation receivable and is included in State Foundation revenue.

**OMEGA SCHOOL OF EXCELLENCE  
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**13. PURCHASED SERVICES**

For the fiscal period July 1, 2001, through June 30, 2002, purchased service expenses were payments for services rendered by various vendors as follows:

Staff Development	\$12,015
Administrative Expenses:	
Postage	1,465
Advertising	3,024
Phone and Internet Lines	8,968
Legal Services	5,509
Other	<u>6,749</u>
Total Administrative Expenses	<u>25,715</u>
Building and Equipment Maintenance and Repair	4,052
Building Services – Architect	1,708
Building Lease/Gym Rental	68,778
Security Services	629
MDECA Services	6,632
Student Field Trips	17,569
Student Instructional Enhancements	27,437
Other	<u>3,782</u>
Total Purchased Services	<u>\$168,317</u>

**14. CONTRIBUTIONS**

The School received one contribution in the amount of \$53,320 for a leadership grant and three contributions totaling \$175,000 for repayment of the line of credit, and general operations.

**15. LINE OF CREDIT**

In July 2000, the Omega School of Excellence entered into an agreement with Fifth Third Bank for a line of credit of \$230,000. This loan was co-signed by the Clay Matille Foundation. The School received \$115,000 from the Clay Matille Foundation in April 2002, to cover half of the principal balance. As of June 30, 2002, \$115,000 of the principal balance still remains. The School has received documentation that they will receive the remaining balance from the Clay Matille Foundation in April 2003.

**16. RELATED PARTIES**

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

During FY 02, Reverend Vanessa Ward's salary was \$66,000 and the Board picked up her share of Medicare, STRS, and pick-up on the STRS pick-up amounting 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.

**OMEGA SCHOOL OF EXCELLENCE  
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**17. MANAGEMENT'S PLANS REGARDING ACCUMULATED DEFICIT**

At June 30, 2002, the School's accumulated deficit was \$80,029. On April 18, 2002, the Mathile Family Foundation pledged a \$230,000 grant to the School to support the payment of the line of credit loan balance with Fifth Third Bank. Of that amount, \$115,000 was received in fiscal year 2002 and the Foundation will distribute another \$115,000 in April of 2003 for payment of the balance remaining at June 30, 2002.

**18. 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.

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

**19. SUBSEQUENT EVENTS**

On July 10, 2002, Omega School of Excellence borrowed \$90,000 from Fifth-Third Bank. This loan was an unsecured 12 month loan at prime rate. Payments were to be made on a monthly basis, beginning August 10, 2003. The purpose of this loan was to help the school meet their payroll obligations for the months of July and August.

**20. RESTATEMENT OF ACCUMULATED DEFICIT**

In the prior year the School recorded \$20,000 as an addition to contributed capital for computer equipment donated by various parties. However, Governmental Accounting Standards Board Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions", which was effective for periods beginning after June 15, 2000, requires governments to recognize capital contributions to proprietary funds as revenues. The effect of this restatement to Net Income and Accumulated Deficit as previously reported is as follows:

Net Loss as previously reported at June 30, 2001	(\$216,687)
Restatement for contributed capital addition	<u>20,000</u>
Net Loss as restated at June 30, 2001	<u>(\$196,687)</u>
Accumulated Deficit as previously reported at June 30, 2001	(\$178,137)
Restatement for contributed capital addition	<u>20,000</u>
Accumulated Deficit as restated at June 30, 2001	<u>(\$158,137)</u>

The effect of this restatement had no effect on total fund equity as reported at June 30, 2001, as the restatement simply restated contributed capital to retained earnings (accumulated deficit).

**OMEGA SCHOOL OF EXCELLENCE  
MONTGOMERY COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2002**

<u>Federal Grantor/ Pass Through Grantor Program Title</u>	<u>Pass Through Entity Number</u>	<u>Federal CFDA Number</u>	<u>Receipts</u>	<u>Disbursements</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>				
<i>Passed Through Ohio Department of Education:</i>				
Nutrition Cluster:				
School Breakfast Program	05PU-2001	10.553	\$3,876	\$3,876
	05PU-2002		11,629	11,629
Total School Breakfast Program			<u>15,505</u>	<u>15,505</u>
National School Lunch Program	LLP1-2001	10.555	6,387	6,387
	LLP1-2002		5,961	5,961
	LLP4-2001		6,781	6,781
	LLP4-2002		26,123	26,123
Total National School Lunch Program			<u>45,252</u>	<u>45,252</u>
Total U.S. Department of Agriculture - Nutrition Cluster			60,757	60,757
<b>U.S. DEPARTMENT OF EDUCATION</b>				
<i>Passed Through Ohio Department of Education:</i>				
Title I Disadvantaged Child	C1S1-2001-C	84.010	33,545	33,545
	C1S1-2002		19,994	25,458
Total Title I			<u>53,539</u>	<u>59,003</u>
Drug-Free Schools Grant	DRS1-2002	84.186	238	1,057
Title II Eisenhower Professional Development Strategies	MSS1-2001	84.281	0	570
	MSS1-2002		1,173	0
Total Title II			<u>1,173</u>	<u>570</u>
Charter School Start Up	CHS1-2001	84.282	40,000	40,000
	CHS1-2002		150,000	150,000
Total Charter School Start Up			<u>190,000</u>	<u>190,000</u>
Title IV Innovative Educational Program Strategies	C2S1-2002	84.298	170	0
Title VI-R Class Size Reduction Grant	CRS1-2001	84.340	3,828	6,009
	CRS1-2002		2,451	3,031
Total Title VI-R			<u>6,279</u>	<u>9,040</u>
Total U.S. Department of Education			<u>251,399</u>	<u>259,670</u>
<b>TOTAL FEDERAL ASSISTANCE</b>			<u><b>\$312,156</b></u>	<u><b>\$320,427</b></u>

*The accompanying notes to this schedule are an integral part of this schedule.*

**OMEGA SCHOOL OF EXCELLENCE  
MONTGOMERY COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2002**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Expenditures (Schedule) summarizes activity of the School's federal award programs. The Schedule has been prepared on the cash basis of accounting.

**NOTE B - U.S. DEPARTMENT OF AGRICULTURE**

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

**NOTE C - MATCHING REQUIREMENTS**

Certain Federal programs require that the School contribute non-Federal funds (matching funds) to support the Federally-funded programs. The School has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



**Auditor of State  
Betty Montgomery**

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

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

To the Governing Board:

We have audited the financial statements of the Omega School of Excellence, Montgomery County (the School), as of and for the year ended June 30, 2002 and have issued our report thereon dated February 7, 2003, in which we noted that 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2002-10357-001. We also noted immaterial instances of noncompliance that we have reported to management of the School in a separate letter dated February 7, 2003.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of School in a separate letter dated February 7, 2003.

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[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

This report is intended for the information and use of the finance/audit committee, management, the Governing Board, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

**Betty Montgomery**  
Auditor of State

February 7, 2003





**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

To the Governing Board:

**Compliance**

We have audited the compliance of Omega School of Excellence, Montgomery County, (the School), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2002. The School's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the School's management. Our responsibility is to express an opinion on the School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School's compliance with those requirements.

In our opinion, Omega School of Excellence, Montgomery County, complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002.

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### **Internal Control Over Compliance**

The management of the School is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the finance/audit committee, management, the Governing Board, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



**Betty Montgomery**  
Auditor of State

February 7, 2003

**OMEGA SCHOOL OF EXCELLENCE  
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 §.505  
FOR THE YEAR ENDED JUNE 30, 2002**

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	CFDA # 84.282
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

**FINDING NUMBER 2002-10357-001**

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

The School did not comply with the above requirement. The School entered into a line of credit in the amount of \$230,000 on July 20, 2000. \$115,000 of the principal amount was still outstanding at June 30, 2002.

Failure to follow the above requirement has resulted in a substantial accumulated deficit at June 30, 2002.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None

**OMEGA SCHOOL OF EXCELLENCE  
MONTGOMERY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDING  
OMB CIRCULAR A -133 §.315 (b)  
FOR THE YEAR ENDED JUNE 30, 2002**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected</u> ?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No <u>Longer Valid</u> ; <b><i>Explain:</i></b>
2001-10357-001	<b>Ohio Rev. Code Section 3314.08(J)</b> - debt extended beyond fiscal year end.	No	Not Corrected.





**Auditor of State  
Betty Montgomery**

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**OMEGA SCHOOL FOR 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  
MAY 15, 2003**