

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

***AUDIT REPORT***

***FOR THE YEAR ENDED JUNE 30, 2005***

***Charles E. Harris and Associates, Inc.***  
**Certified Public Accountants and Government Consultants**





**Auditor of State  
Betty Montgomery**

Governing Board  
Omega School of Excellence  
1821 Emerson Avenue  
Dayton, Ohio 45406

We have reviewed the *Report of Independent Accountants* of the Omega School of Excellence, Montgomery County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Omega School of Excellence is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

November 6, 2006

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**OMEGA SCHOOL OF EXCELLENCE  
MONTGOMERY COUNTY  
For the Year Ending June 30, 2005**

**TABLE OF CONTENTS**

<u><b>Title</b></u>	<u><b>Page</b></u>
<b>Report of Independent Accountants</b>	<b>1-2</b>
<b>Management’s Discussion and Analysis</b>	<b>3-6</b>
<b>Statement of Net Assets</b>	<b>7</b>
<b>Statement of Revenues, Expenses and Changes in Net Assets</b>	<b>8</b>
<b>Statement of Cash Flows</b>	<b>9</b>
<b>Notes to the Basic Financial Statements</b>	<b>10-21</b>
<b>Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Required by <i>Government Auditing Standards</i></b>	<b>22-23</b>
<b>Schedule of Findings</b>	<b>24</b>
<b>Schedule of Prior Audit Findings</b>	<b>25</b>

***Charles E. Harris & Associates, Inc.***  
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**REPORT OF INDEPENDENT ACCOUNTANTS**

The Governing Board  
Omega School of Excellence  
Dayton, Ohio

We have audited the accompanying basic financial statements of the Omega School of Excellence (the School) as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the Academy'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 basic financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2005, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 29, 2006 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

***Charles E. Harris & Associates, Inc.***

June 29, 2006

**OMEGA SCHOOL OF EXCELLENCE**  
**MONTGOMERY COUNTY, OHIO**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005  
(Unaudited)

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The discussion and analysis of Omega School of Excellence's (the School) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School's financial performance.

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

### **Financial Highlights**

Key financial highlights for fiscal year 2005 are as follows:

- Total net assets increased \$91,772 in fiscal year 2005, which represents an 130.34% increase from fiscal year 2004, as a result of increase in state foundation payments and federal and state grants from the previous year along with a reduction in operating expenses of approximately \$260,000.
- Total assets increased \$34,740 which represents a 19.41% increase from the prior year. The increase is primarily due to the increase in cash held by the School and the reduction of liabilities that were paid during the current year.
- The operating loss reported for fiscal year 2005 in the amount of \$219,944 was \$311,945 less than the operating loss of \$531,889 reported for fiscal year 2004 or a 58.65% smaller loss.

### **Using this Financial Report**

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

#### *Statement of Net Assets*

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

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

**OMEGA SCHOOL OF EXCELLENCE**  
**MONTGOMERY COUNTY, OHIO**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005  
(Unaudited)

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Table 1 provides a summary of the School's net assets for fiscal year 2005 compared with fiscal year 2004.

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

	2005	2004
<b>ASSETS:</b>		
Current and other assets	\$ 168,635	128,699
Capital assets, net	45,063	50,259
Total assets	213,698	178,958
 <b>LIABILITIES:</b>		
Current liabilities	51,515	108,547
Total liabilities	51,515	108,547
 <b>NET ASSETS:</b>		
Invested in capital assets	45,063	50,259
Unrestricted	117,120	20,152
Total net assets	\$ 162,183	70,411

Total net assets of the School increased by \$91,772 or 130.34%. The increase in total net assets from fiscal year 2004 is due in part to increase in state foundation payments and federal and state grants from the previous year and a significant reduction in operating expenses of approximately \$260,000. The \$34,740 increase in total assets is attributable to an increase in ending cash balances of the School's funds and a decrease in the amount of liabilities that were paid off during the fiscal year ended June 30, 2005. Total liabilities reported at June 30, 2005 decreased by \$57,032 from the amount reported at June 30, 2004, primarily due to the timely payments made to vendors, which reduce accounts payable and amounts recorded as intergovernmental payables for fiscal year ending June 30, 2004.

The decrease in net assets invested in capital assets results from recognizing current year depreciation of capital assets in the amount of \$11,049, which was offset by current year capital asset acquisition in the amount of \$5,853.

**OMEGA SCHOOL OF EXCELLENCE**  
**MONTGOMERY COUNTY, OHIO**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005  
(Unaudited)

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Table 2 shows the changes in net assets for the fiscal year ended June 30, 2005, as well as revenue and expense comparisons to fiscal year 2004.

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

	2005	2004
Operating revenues:		
Foundation payments	\$ 1,261,688	1,224,287
Other operating revenues	53,077	32,789
Non-operating revenues:		
State and federal grants	252,583	277,564
Contributions	60,425	267,182
Total revenues	1,627,773	1,801,822
Operating expenses:		
Salaries	833,989	992,046
Fringe benefits	243,360	263,658
Management company fees	42,000	40,250
Building rental	108,000	103,032
Other purchased services	187,597	246,541
Materials and supplies	47,363	80,936
Depreciation	11,049	10,318
Other expenses	61,351	52,184
Non-operating expenses:		
Interest expense	1,292	780
Total expenses	1,536,001	1,789,745
Change in net assets	91,772	12,077
Net assets, beginning of year	70,411	58,334
Net assets, end of year	\$ 162,183	70,411

The increase in State foundation payments noted for fiscal year 2005 is the result of an increase in the number of students enrolled in the School as well as increases in the per pupil funding amount for fiscal year 2005. During fiscal year 2005, the School received contributions from various sources in the amount of \$60,425 as compared to \$267,182 in fiscal year 2004.

The reduction in salaries and benefits expenses reported for fiscal year 2005 results from a reduction in staff positions in order to be proportionate with the number of students attending the School. The reduction in staff also reduced costs related to purchased services.

**OMEGA SCHOOL OF EXCELLENCE**  
**MONTGOMERY COUNTY, OHIO**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005  
(Unaudited)

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**Capital Assets**

At June 30, 2005 the capital assets of the School consisted of \$88,391 of equipment and leasehold improvements off-set by \$43,328 in accumulated depreciation resulted in net capital assets of \$45,063. The \$5,196 decrease in total net capital assets is due to current year depreciation expense of \$11,049 combined with \$5,853 of equipment and leasehold improvements acquired during fiscal year 2005.

See Note 6 of the notes to the basic financial statements for more detailed information on the School's capital assets.

**Line of Credit**

At June 30, 2005, the School had no debt as the line of credit was paid in full during the year.

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

**Contacting the School**

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

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

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

Statement of Net Assets  
As of June 30, 2005

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**ASSETS:**

**Current Assets:**

Cash and cash equivalents	\$ 68,140
Receivables:	
Accounts	50
Intergovernmental	98,975
Prepaid expenses	<u>1,470</u>
Total current assets	168,635

**Noncurrent Assets:**

Capital assets:	
Capital assets, net of accumulated depreciation	<u>45,063</u>
Total assets	<u>213,698</u>

**LIABILITIES:**

**Current Liabilities:**

Accounts payable	7,753
Accrued wages & benefits payable	29,382
Intergovernmental payable	6,627
Compensated absences	<u>7,753</u>
Total liabilities	<u>51,515</u>

**NET ASSETS:**

Invested in capital assets, net of related debt	45,063
Unrestricted	<u>117,120</u>
Total net assets	\$ <u>162,183</u>

See accompanying notes to the financial statements

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

Statement of Revenues, Expenses and Changes in Fund Net Assets  
For the Year Ended June 30, 2005

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**OPERATING REVENUES:**

Foundation payments	\$ 1,261,688
Sales	43,518
Other Revenues	<u>9,559</u>
 Total operating revenues	 <u>1,314,765</u>

**OPERATING EXPENSES:**

Salaries	833,989
Fringe benefits	243,360
Purchased services	356,948
Management company fees	42,000
Materials and supplies	47,363
Depreciation	<u>11,049</u>
 Total operating expenses	 <u>1,534,709</u>

Operating loss (219,944)

**NONOPERATING REVENUES (EXPENSES):**

Federal and state grants	252,583
Contributions	60,425
Interest expense	<u>(1,292)</u>
 Net nonoperating revenues	 <u>311,716</u>

Change in net assets 91,772

Net assets, beginning of year 70,411

Net assets, end of year \$ 162,183

See accompanying notes to the financial statements

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

Statement of Cash Flows  
For the Year Ended June 30, 2005

**INCREASE IN CASH AND CASH EQUIVALENTS:**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Cash received from State of Ohio	\$	1,228,565
Cash received from sales		43,518
Cash payments to employees for services		(1,076,598)
Cash payments to suppliers for goods and services		(470,974)
Cash received from other revenues		<u>9,734</u>
 Net cash used for operating activities		 <u>(265,755)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:**

Federal and state grants		259,013
Contributions		60,425
Cash received from line of credit		32,000
Cash payments to line of credit		(32,000)
Interest payments on line of credit		<u>(1,292)</u>
 Net cash provided by noncapital financing activities		 <u>318,146</u>

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

Payments for capital acquisitions		<u>(5,853)</u>
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NET INCREASE IN CASH AND CASH EQUIVALENTS 46,538

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 21,602

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 68,140

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

Operating loss	\$	(219,944)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation		11,049
Changes in assets and liabilities:		
Accounts receivable		175
Prepaid expenses		(3)
Accounts payable		(25,261)
Accrued wages and benefits		(6,621)
Compensated absences payable		7,753
Intergovernmental payable		<u>(32,903)</u>
 Net cash used for operating activities	 \$	 <u>(265,755)</u>

See accompanying notes to the financial statements

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

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2005

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1. Description of the School and Reporting Entity:

Omega School of Excellence (the "School") is a state nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in grades 5 through 7. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School. The School qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the School's tax-exempt status.

The School was approved for operation under contract with the Ohio State Board of Education (the Sponsor) for a period of five years commencing July 1, 2000 through June 30, 2005. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration.

The School operates under a six-member Governing Board (the Board). The Governing Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Governing Board controls the School's one instructional/support facility staffed by 24 personnel who provide instructional services to 221 students.

2. Summary of Significant Accounting Policies:

The financial statements of the School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the School's accounting policies are described below.

A. Basis of presentation

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

B. Measurement focus and basis of accounting

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

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

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2005

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

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

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

Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

C. Budgetary process

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Section 5705, unless specifically provided in the Schools contract with its Sponsor. The contract between the School and its Sponsor, the Ohio State Board of Education, does not prescribe a budgetary process for the School.

D. Cash and cash equivalents

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

E. Estimates

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

F. Capital assets and depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market value as of the date received. The School maintains a capitalization threshold of \$500. The School does not possess any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are expensed.

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

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2005

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

G. Intergovernmental revenues

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

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

Amounts awarded under the above named programs for the 2004-2005 school year totaled \$1,514,271.

H. Compensated absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School will compensate the employees for the benefits through paid time off or some other means. The School will compensate the employees for the benefits through paid time off or some other means. The School records a liability for accumulated unused vacation time when earned for all employees. At June 30, 2005, the School recorded accumulated unused vacation time in the amount of \$7,753 .

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, 2005, including:

Wages payable – salary payments made after year-end that were for services rendered in fiscal year 2005. Personnel are paid in 24 equal installments, ending with the first payroll in July, for services rendered during the previous School year. Therefore, a liability has been recognized at June 30, 2005 for the first salary payment made in July 2005 to all employees.

Intergovernmental payable – payment for the employer's share of the retirement contribution (\$6,132), Workers' Compensation (\$220) and Medicaid (\$275) associated with services rendered during fiscal year 2005, but were not paid until the subsequent fiscal year. The Ohio Department of Education conducts reviews of the enrollment data and full-time equivalency (FTE) calculations made by schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated.

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

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2005

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J. Net Assets

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

K. Operating and non-operating revenues and expenses

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

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

L. Federal tax exemption status

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

3. Change in Accounting Principles:

In March 2003, the Governmental Accounting Standards Board (GASB) issued Statement No. 40, *Deposit and Investment Risk Disclosures*, which revised the necessary disclosures that address risk related to deposits and investments and amended Statement No. 3, *Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements*. Statement No. 40 involves required disclosures about:

- Custodial Credit Risk
- Credit Risk
- Concentration of Credit Risk
- Interest Rate Risk, and
- Foreign Currency Risk

Additional disclosures are required regarding investment policies related to disclosed risks, and for investments with fair values that are highly sensitive to interest rate changes. The requirements of Statement No. 40 are effective for financial statements for periods beginning after June 15, 2004. Implementation of this new accounting principle had no effect on these financial statements.

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

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2005

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4. Cash and Cash Equivalents:

State statutes require the classification of monies held by the School into three categories.

Active Monies – Those monies are required to be kept in “cash” or “near-cash” status for the immediate use of the district. Such monies must be maintained either as cash in the treasury, in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive Monies – Those monies not required for use within the current five-year period of designation of depositories. Inactive monies may be deposited or invested as certificate of deposit maturing no later than the end of the current period of designation of depositories, or as savings or deposit accounts including, but not limited to, passbook accounts.

Interim Monies – Those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Ohio law permits interim monies to be invested in legal securities.

Deposits

Custodial credit risk is the risk that in the event of bank failure, the School’s deposits may not be returned to it. Protection of the School’s deposits is provided by the federal deposit insurance corporation as well as qualified securities pledged by the institution holding the assets.

**Deposits:** At fiscal year end the carrying amount of the School’s cash and deposits were \$68,140 and the bank balance was \$117,345. \$17,345 of the bank deposits was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with the federal requirements could potentially subject the School to a successful claim by the FDIC. During fiscal year 2005, the School did not have any investments.

5. Receivables:

Receivables at June 30, 2005, consisted of intergovernmental grants and the state foundation program. All receivables are considered collectible in full. A summary of the principal items of intergovernmental receivables follows:

<u>Receivable</u>	<u>Amount</u>
Title II-A	\$ 6,013
Title V	50,000
Title I	33,480
Lunchroom Reimbursement	9,482
Total Intergovernmental Receivables	\$ <u>98,975</u>

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

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2005

6. Capital Assets:

A summary of the School's capital assets at June 30, 2005, follows:

	Balance <u>6/30/2004</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>6/30/2005</u>
<b><u>Capital Assets, being depreciated</u></b>				
Leasehold Improvements	\$ 12,843	-	-	12,843
Furniture and Equipment	69,695	5,853	-	75,548
<b><u>Less: Accumulated Depreciation</u></b>				
Furniture and Equipment	<u>(32,279)</u>	<u>(11,049)</u>	<u>-</u>	<u>(43,328)</u>
<b>Capital Assets, net</b>	<b>\$ <u>50,259</u></b>	<b><u>(5,196)</u></b>	<b><u>-</u></b>	<b><u>45,063</u></b>

The School records a full year of depreciation in the year of acquisition. Depreciation expense for the fiscal year ended June 30, 2005 was \$11,049.

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 2005, the School contracted with Indiana Insurance Company for general liability. Coverage provided \$1,000,000 per occurrence and \$2,000,000 in the aggregate with no deductible.

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 2005, the annual cost of medical insurance is based on gender and age.

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

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2005

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8. Defined Benefit Pension Plans:

A. School Employees Retirement System

**Plan Description.** The School contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. The School Employees Retirement System issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling toll free (800) 878-5853. It is also posted on SERS' website, [www.ohsers.org](http://www.ohsers.org), under Forms and Publications.

**Funding Policy.** Plan members are required to contribute 10% of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current is 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The School's contributions to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$18,811, \$10,446, and \$14,059, respectively, equal to 89% for 2005 and 100% for 2004 and 2003.

B. State Teachers Retirement System

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

**Plan Options** – New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

**DB Plan Benefits** – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2%

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

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2005

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multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31<sup>st</sup> year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

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

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

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

A retiree of STRS Ohio or another public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of 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. Effective April 11, 2005, a reemployed retiree may alternatively receive a refund of member contributions with interest before age 65, once employment is terminated.

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

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

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

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2005

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A Defined Benefit or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2005, were 10% of covered payroll for members and 14% for employers. The School's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$117,723, \$128,792, and \$101,098, respectively; equal to 97% for 2005 and 100% for 2004 and 2003.

STRS Ohio issues a stand-alone financial report. Copies of STRS Ohio's 2004 *Comprehensive Annual Financial Report* will be available after January 1, 2006. Additional information or copies of STRS Ohio's 2004 *Comprehensive Annual Financial Report* can be requested by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

9. Postemployment Benefits:

A. School Employees Retirement System

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2005, the healthcare allocation is 3.43%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the School, the amount to fund health care benefits, including the surcharge, was \$6,627 for fiscal year 2005.

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ending June 30, 2005 were \$178,221,113. The target level for the health care fund is 150% of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168% of next year's projected health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at

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

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2005

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least 150% of estimated annual net claim costs. The number of participants eligible to receive benefits is 58,123.

**B. State Teachers Retirement System**

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

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal years ended June 30, 2005, and June 30, 2004, the Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.3 billion on June 30, 2005. For the School, this amount equaled \$8,409 during the 2005 fiscal year.

For the fiscal year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000. There were 115,395 eligible benefit recipients.

**10. Employee Benefits:**

**A. Compensated Absences**

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

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

At June 30, 2005, the School recorded accumulated unused vacation time in the amount of \$7,753

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

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2005

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**B. Health Care Benefits**

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

**11. Operating Lease:**

The School leases classroom and office space from Omega Baptist Church, a noncancellable, operating lease. The term of this lease commences July 1, 2000 and continues through June 30, 2004. The lease automatically renews for 3 years unless written notification is given by either party no later than 60 days prior to end of term. The lease payment includes the cost of utilities, maintenance, custodial and grounds services. The minimum lease payment for 2006 is \$122,000.

**12. Contingencies:**

**A. Grants**

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

**B. State Funding**

The Ohio Department of Education conducts reviews of enrollment data and FTE calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusions of this review could result in state funding being adjusted. This information was not available as of the date of this report. The School does not anticipate any material adjustments to state funding for fiscal year 2006, as a result of such a review.

**C. Litigation**

A suit was filed in Franklin County Common Pleas Court on May 14, 2001 alleging that Ohio's Community (i.e., Charter) Schools program violates the State Constitution and state laws. On April 21, 2003, the Court dismissed the counts containing constitutional claims and stayed the other courts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed and the case was heard on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the State public educational system and this matter was sent to the Ohio Supreme Court. The effect of this suit, if any, on the School is not presently determinable.

The School is a defendant in a lawsuit with a former employee. The outcome of this lawsuit is unknown, but management of the School believes that any loss would not be material to the School.

**OMEGA SCHOOL OF EXCELLENCE**  
**MONTGOMERY COUNTY, OHIO**  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2005

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13. State School Funding Decision:

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

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

14. Line of Credit:

On September 2, 2004, the School borrowed \$32,000 from Fifth-Third Bank. This loan was an unsecured 12-month loan at prime rate. Payments are to be made on a monthly basis beginning October 31, 2004. The purpose of this loan was to help the School meet cash flows purposes. At June 30, 2005, the line of credit was paid in full. Interest in the amount of \$1,292 was paid for the year ended June 30, 2005.

15. Other Purchased Services:

During the year ended June 30, 2005, other purchased service expenses for services rendered by various vendors were as follows:

Professional and technical services	\$ 40,020
Property services - rent	138,014
Pupil transportation	2,147
Travel reimbursement	6,470
Communications	21,258
Contracted or trade services	87,688
Other	<u>61,351</u>
	\$ <u><u>356,948</u></u>

16. Fiscal Services:

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

*Charles E. Harris & Associates, Inc.*  
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS REQUIRED BY GOVERNMENT AUDITING STANDARDS**

To the Governing Board  
Omega School of Excellence  
Dayton, Ohio

We have audited the financial statements of the Omega School of Excellence (the "School") as of and for the year ended June 30, 2005, which collectively comprises the School's basic financial statements and have issued a report thereon dated June 29, 2006. 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.

**Internal Controls 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 an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable is described in the accompanying Schedule of Findings as item 2005-001.

A material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud 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. The reportable condition described above, item 2005-001, we consider to be a material weakness. We also 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 June 29, 2006.

**Compliance and Other Matters**

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, grant agreements and other matters noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the School in a separate letter dated June 29, 2006.

This report is intended solely for the information and use of the management and the Governing Board and is not intended to be and should not be used by anyone other than these specified parties.

***Charles E. Harris and Associates, Inc.***

June 29, 2006

**OMEGA SCHOOL OF EXCELLENCE  
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2005**

<p><b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE GAGAS</b></p>
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**FINDING NUMBER 2005-001**

Unreconciled Cash Accounts

The School's financial system was greater than the adjusted bank balance by \$4,195. The difference was due to \$2,575 of checks stolen from the School and cashed by the School's bank. The remaining amount, \$1,620 was an unreconciled difference. The School did not produce bank reconciliations, for the general account, for the months of July, August, September, November and December of 2004. The financial statements have been reduced by this shortage, \$4,195.

Failure to reconcile the general account may have prevented the School from detecting the unreconciled difference in a more timely fashion.

The School has begun reconciling all bank accounts in timely fashion and reviewing all reconciliations.

OMEGA SCHOOL OF EXCELLENCE  
MONTGOMERY COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2005

FINDING NUMBER	FUNDING SUMMARY	FULLY CORRECTED?	Not Corrected. Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
Finding Number 2004-001	School did not reconcile cash accounts.	NO	Repeated as finding # 2005-001.
Finding Number 2004-002	School did not track sick leave balances.	YES	The School tracked sick leave balances.



**Auditor of State  
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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  
NOVEMBER 21, 2006**