

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

AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2006

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



Mary Taylor, CPA
Auditor of State

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, 2005 through June 30, 2006. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 27, 2007

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**OMEGA SCHOOL OF EXCELLENCE
MONTGOMERY COUNTY
For the Year Ending June 30, 2006**

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REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Board of Trustees:

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, 2006, as listed in the table of contents. 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 provide 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, 2006, 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 February 15, 2007 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.

February 15, 2007

OMEGA SCHOOL OF EXCELLENCE
MONTGOMERY COUNTY, OHIO
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

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, 2006. 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 2006 are as follows:

- Total net assets decreased \$79,595 in fiscal year 2006, which represents an 49.08% decrease from fiscal year 2005, as a result of decrease in state foundation payments and federal and state grants from the previous year due to a decrease in students enrolled in fiscal year 2006.
- Total assets decreased \$113,676 which represents a 53.19% decrease from the prior year, which is primarily due to the decrease in cash held by the School.
- The operating loss reported for fiscal year 2006 in the amount of \$276,378 was \$56,434 more than the operating loss of \$219,944 reported for fiscal year 2005 or a 25.66% larger loss.

Using this Financial Report

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

Statement of Net Assets

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

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

OMEGA SCHOOL OF EXCELLENCE
MONTGOMERY COUNTY, OHIO
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

Table 1 provides a summary of the School's net assets for fiscal year 2006 compared with fiscal year 2005.

TABLE 1		2006	2005
NET ASSETS		<u>2006</u>	<u>2005</u>
ASSETS:			
Current and other assets	\$	52,329	168,635
Capital assets, net		<u>47,693</u>	<u>45,063</u>
Total assets		<u>100,022</u>	<u>213,698</u>
 LIABILITIES:			
Current liabilities		<u>17,434</u>	<u>51,515</u>
Total liabilities		<u>17,434</u>	<u>51,515</u>
 NET ASSETS:			
Invested in capital assets		47,693	45,063
Unrestricted		<u>34,895</u>	<u>117,120</u>
Total net assets	\$	<u>82,588</u>	<u>162,183</u>

Total net assets of the School decreased by \$79,595 or 49.08%. The increase in total net assets from fiscal year 2005 is due in part to decrease in state foundation payments and federal and state grants from the previous year due to a decrease in enrollment. The (\$113,676) decrease in total assets is attributable to a decrease in ending cash balances of the School's funds and a decrease in the amount of intergovernmental receivable as of fiscal year ended June 30, 2006. Total liabilities reported at June 30, 2006 decreased by \$34,081 from the amount reported at June 30, 2005, primarily due to the decrease in accrued wages and benefits for fiscal year ending June 30, 2006.

The increase in net assets invested in capital assets results from recognizing current year depreciation of capital assets in the amount of \$13,003, which was offset by current year capital asset acquisition in the amount of \$15,633.

OMEGA SCHOOL OF EXCELLENCE
MONTGOMERY COUNTY, OHIO
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2006, as well as revenue and expense comparisons to fiscal year 2005.

TABLE 2
CHANGE IN NET ASSETS

	2006	2005
Operating revenues:		
Foundation payments	\$ 847,278	1,261,688
Other operating revenues	35,921	53,077
Non-operating revenues:		
State and federal grants	182,370	252,583
Contributions	14,413	60,425
Total revenues	1,079,982	1,627,773
Operating expenses:		
Salaries	534,787	833,989
Fringe benefits	180,211	243,360
Management company fees	30,275	42,000
Building rental	101,817	108,000
Other purchased services	209,767	187,597
Materials and supplies	35,282	47,363
Depreciation	13,003	11,049
Other expenses	54,435	61,351
Non-operating expenses:		
Interest expense	-	1,292
Total expenses	1,159,577	1,536,001
Change in net assets	(79,595)	91,772
Net assets, beginning of year	162,183	70,411
Net assets, end of year	\$ 82,588	162,183

The decrease in State foundation payments noted for fiscal year 2006 is the result of an decrease in the number of students enrolled in the School for fiscal year 2006. During fiscal year 2006, the School received contributions from various sources in the amount of \$14,413 as compared to \$60,425 in fiscal year 2005.

The reduction in salaries and benefits expenses reported for fiscal year 2006 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, 2006
(Unaudited)

Capital Assets

At June 30, 2006 the capital assets of the School consisted of \$104,024 of equipment and leasehold improvements off-set by \$56,331 in accumulated depreciation resulted in net capital assets of \$47,693. The \$2,630 increase in total net capital assets is due to current year depreciation expense of \$13,003 combined with \$15,633 of equipment and leasehold improvements acquired during fiscal year 2006.

See Note 5 of the notes to the basic financial statements for more detailed information on the School's capital assets.

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, 2006

ASSETS:

Current Assets:

Cash and cash equivalents	\$ 14,504
Receivables:	
Intergovernmental	36,970
Prepaid expenses	<u>855</u>
Total current assets	52,329

Noncurrent Assets:

Capital assets:	
Capital assets, net of accumulated depreciation	<u>47,693</u>
Total assets	<u>100,022</u>

LIABILITIES:

Current Liabilities:

Accounts payable	2,520
Accrued wages & benefits payable	7,523
Intergovernmental payable	3,644
Compensated absences	<u>3,747</u>
Total liabilities	<u>17,434</u>

NET ASSETS:

Invested in capital assets, net of related debt	47,693
Unrestricted	<u>34,895</u>
Total net assets	<u>\$ 82,588</u>

See accompanying notes to the financial statements

OMEGA SCHOOL OF EXCELLENCE
MONTGOMERY COUNTY, OHIO

Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2006

OPERATING REVENUES:

Foundation payments	\$	847,278
Sales		15,066
Other revenues		<u>20,855</u>
Total operating revenues		<u>883,199</u>

OPERATING EXPENSES:

Salaries		534,787
Fringe benefits		180,211
Purchased services		366,019
Management company fees		30,275
Materials and supplies		35,282
Depreciation		<u>13,003</u>
Total operating expenses		<u>1,159,577</u>

Operating loss (276,378)

NONOPERATING REVENUES (EXPENSES):

Federal and state grants		182,370
Contributions		<u>14,413</u>
Net nonoperating revenues		<u>196,783</u>

Change in net assets (79,595)

Net assets, beginning of year 162,183

Net assets, end of year \$ 82,588

See accompanying notes to the financial statements

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

Statement of Cash Flows
For the Year Ended June 30, 2006

INCREASE IN CASH AND CASH EQUIVALENTS:

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from State of Ohio	\$ 909,283
Cash received from sales	15,066
Cash payments to employees for services	(745,485)
Cash payments to suppliers for goods and services	(434,555)
Cash received from other revenues	<u>20,905</u>
Net cash used for operating activities	<u>(234,786)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Federal and state grants	182,370
Contributions	<u>14,413</u>
Net cash provided by noncapital financing activities	<u>196,783</u>

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

Payments for capital acquisitions	<u>(15,633)</u>
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NET INCREASE IN CASH AND CASH EQUIVALENTS (53,636)

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 68,140

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 14,504

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

Operating loss	\$ (276,378)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	13,003
Changes in assets and liabilities:	
Accounts receivable	50
Intergovernmental receivables	62,005
Prepaid expenses	615
Accounts payable	(5,233)
Accrued wages and benefits	(21,859)
Compensated absences payable	(4,006)
Intergovernmental payable	<u>(2,983)</u>
Net cash used for operating activities	\$ <u><u>(234,786)</u></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, 2006

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.

In fiscal year 2006, Keys to Improving Dayton Schools School Resource became the School's sponsor.

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 8 personnel who provide instructional services to 120 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 School has elected not to follow FASB statements or interpretations after November 30, 1989. 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, 2006

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, 2006

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 II-A 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 2005-2006 school year totaled \$1,029,648.

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, 2006, the School recorded accumulated unused vacation time in the amount of \$3,747 .

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, 2006, including:

Wages payable – salary payments made after year-end that were for services rendered in fiscal year 2006. 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, 2006 for the first salary payment made in July 2006 to all employees.

Intergovernmental payable – payment for the employer's share of the retirement contribution (\$3,493), Workers' Compensation (\$56) and Medicaid (\$95) associated with services rendered during fiscal year 2006, 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, 2006

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. 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.

OMEGA SCHOOL OF EXCELLENCE
MONTGOMERY COUNTY, OHIO
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006

Deposits: At fiscal year end the carrying amount of the School's cash and deposits were \$14,504 and the bank balance was \$65,357. All of the bank deposits were collateralized under FDIC insurance. 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 2006, the School did not have any investments.

4. Receivables:

Receivables at June 30, 2006, 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	\$ 11,149
Title V	62
Title VI-B	9,963
Title IV-A	1,863
Title I	8,792
Lunchroom Reimbursement	5,141
Total Intergovernmental Receivables	\$ <u>36,970</u>

OMEGA SCHOOL OF EXCELLENCE
MONTGOMERY COUNTY, OHIO
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006

5. Capital Assets:

A summary of the School's capital assets at June 30, 2006, is as follows:

	<u>Balance</u> <u>6/30/2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>6/30/2006</u>
<u>Capital Assets, being depreciated</u>				
Leasehold Improvements	\$ 12,843	-	-	12,843
Furniture and Equipment	75,548	15,633	-	91,181
<u>Less: Accumulated Depreciation</u>				
Furniture and Equipment	<u>(43,328)</u>	<u>(13,003)</u>	<u>-</u>	<u>(56,331)</u>
Capital Assets, net	\$ <u>45,063</u>	<u>2,630</u>	<u>-</u>	<u>47,693</u>

The School records a full year of depreciation in the year of acquisition. Depreciation expense for the fiscal year ended June 30, 2006 was \$13,003.

6. 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 2006, 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 2006, the annual cost of medical insurance is based on gender and age.

7. Defined Benefit Pension Plans:

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries.

OMEGA SCHOOL OF EXCELLENCE
MONTGOMERY COUNTY, OHIO

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006

Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at ohsers.org.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$24,963, \$18,811, and \$10,446, respectively; 69.2 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

B. State Teachers Retirement System of Ohio

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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MONTGOMERY COUNTY, OHIO

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For the Fiscal Year Ended June 30, 2006

A DB or Combined Plan member with five or more years of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004, were \$96,490, \$117,723, and \$128,792, respectively; 63.3 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. No members elected to participate in the DC and Combined Plans for fiscal year 2006.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2006, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

8. Postemployment Benefits:

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and partial 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 Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the 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. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$6,116 for fiscal year 2006.

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For the Fiscal Year Ended June 30, 2006

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, (the latest information available) the balance in the Fund was \$3.3 billion. For the fiscal year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000 and STRS Ohio had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. 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 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. 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 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$2,439.

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 projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has 58,123 participants eligible to receive health care benefits.

9. 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, 2006, the School recorded accumulated unused sick and vacation time in the amount of \$3,747 .

OMEGA SCHOOL OF EXCELLENCE
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Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006

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.

10. Operating Lease:

The School leases classroom and office space from Omega Baptist Church, a noncancellable, operating lease. The term of this lease commenced July 1, 2000 and continued 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 automatically renewed on July 1, 2005. The lease payment includes the cost of utilities, maintenance, custodial and grounds services. The minimum lease payment for 2006 is \$100,000.

11. 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.

12. Other Purchased Services:

During the year ended June 30, 2006, other purchased service expenses for services rendered by various vendors were as follows:

Professional and technical services	\$	129,336
Property services - rent		57,495
Pupil transportation		285
Travel reimbursement		1,344
Communications		92,214
Contracted or trade services		60,595
Other		<u>55,025</u>
	\$	<u><u>396,294</u></u>

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Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006

13. Fiscal Services:

The School entered into a contract with Keys to Improving Dayton Schools School Resource to provide basic treasurer and financial management services for the period July 1, 2005 to June 30, 2007. The fee for the services is \$4,325 per month.

Charles E. Harris & Associates, Inc.
Certified Public Accountants

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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**

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

To the Board of Trustees:

We have audited the financial statements of the Omega School of Excellence (the "School") as of and for the year ended June 30, 2006, which collectively comprise the School's basic financial statements and have issued a report thereon dated February 15, 2007. 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. Our consideration of internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to management in a separate letter dated February 15, 2007.

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*.

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

Charles E. Harris and Associates, Inc.
February 15, 2007

OMEGA SCHOOL OF EXCELLENCE
MONTGOMERY COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2006

FINDING NUMBER	FUNDING SUMMARY	FULLY CORRECTED?	Not Corrected. Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2005-001	The School did not reconcile its bank accounts each month in a timely fashion.	Yes	Corrected



Mary Taylor, CPA
Auditor of State

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
MAY 10, 2007