

***HAMILTON COUNTY MATHEMATICS AND  
SCIENCE ACADEMY  
HAMILTON COUNTY, OHIO***

***AUDIT REPORT***

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

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





# Mary Taylor, CPA

Auditor of State

Board of Directors  
Hamilton County Mathematics and Science Academy  
7601 Harrison Avenue  
Cincinnati, Ohio 45231

We have reviewed the *Report of Independent Accountants* of the Hamilton County Mathematics and Science Academy, Hamilton 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 Hamilton County Mathematics and Science Academy is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

April 2, 2008

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**HAMILTON COUNTY MATHEMATICS AND SCIENCE ACADEMY  
HAMILTON COUNTY  
Audit Report  
For the Year Ending June 30, 2005**

**TABLE OF CONTENTS**

<u>Title</u>	<u>Page</u>
<b>Report of Independent Accountants</b>	<b>1</b>
<b>Statement of Net Assets</b>	<b>2</b>
<b>Statement of Revenues, Expenses and Changes in Net Assets</b>	<b>3</b>
<b>Statement of Cash Flows</b>	<b>4</b>
<b>Notes to the Basic Financial Statements</b>	<b>5-14</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>15-16</b>
<b>Schedule of Findings</b>	<b>17-19</b>
<b>Status of Prior Audit Findings</b>	<b>20</b>

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

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## **REPORT OF INDEPENDENT ACCOUNTANTS**

Hamilton County Mathematics and Science Academy  
Hamilton County  
7601 Harrison Avenue  
Cincinnati, Ohio 45231

To the Board of Directors:

We were engaged to audit the accompanying statement of net assets of Hamilton County Mathematics and Science Academy, Hamilton, Ohio (the Academy), as of June 30, 2005, and the related statements of activities and cash flows, for the year then ended. These financial statements are the responsibility of the Academy's management.

We were unable to obtain sufficient competent evidential matter related to various asset, liability, revenue and expense balances. We were not able to obtain required representations from management or confirm balances with banks and creditors.

Because we were unable to satisfy ourselves concerning various financial statement amounts and obtain required representations from management or confirm balances with banks and creditors, as explained in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to in the first paragraph.

Generally accepted accounting principles requires the Academy to include Management's Discussion and Analysis for the year ended June 30, 2005. The Academy has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 6, 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.***  
November 6, 2007

**HAMILTON COUNTY MATHEMATICS AND SCIENCE ACADEMY  
HAMILTON COUNTY**

**STATEMENT OF NET ASSETS  
AS OF JUNE 30, 2005**

**Assets**

Current Assets

Cash	\$ 3,781
Intergovernmental Receivable	24,217
Total Current Assets	<u>27,998</u>

Non-Current Assets

Capital Assets (Net of Accumulated Depreciation)	<u>1,014,137</u>
Total Assets	<u>\$ 1,042,135</u>

**Liabilities**

Current Liabilities

Accounts Payable	\$ 66,250
Accrued Wages and Benefits	8,118
Non-Current Liabilities Due Within One Year	110,902
Total Current Liabilities	<u>185,270</u>

Non-Current Liabilities

Capital Lease and Equipment Loan	13,785
Mortgage Payable	854,623
Total Non-Current Liabilities	<u>868,408</u>
Total Liabilities	1,053,678

**Net Assets**

Invested in Capital Assets, Net of Related Debt	34,827
Unrestricted	(46,370)
Total Net Assets	<u>\$ (11,543)</u>

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

**HAMILTON COUNTY MATHEMATICS AND SCIENCE ACADEMY  
HAMILTON COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2005**

**Operating Revenues**

Foundation payments	\$ 1,057,888
State special education program	14,330
DPIA	128,152
Miscellaneous	4,498
Total Operating Revenues	<u>1,204,868</u>

**Operating Expenses**

Salaries	594,314
Fringe Benefits	108,278
Purchased Services	270,974
Supplies and materials	190,072
Depreciation	28,359
Other	7,235
Total Operating Expenses	<u>1,199,232</u>

Operating Income	5,636
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**Non-operating Revenues**

Federal, State, and Local Grants	116,460
Total Non-Operating Revenues	<u>116,460</u>

**Non-operating Expenses**

Interest	(72,814)
Total Non-Operating Expenses	<u>(72,814)</u>

Change in Net Assets	49,282
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Net Assets Beginning of year	(60,825)
Net Assets End of year	<u>\$ (11,543)</u>

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

**HAMILTON COUNTY MATHEMATICS AND SCIENCE ACADEMY  
HAMILTON COUNTY**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2006**

**Increase (Decrease) in Cash and Cash Equivalents**

**Cash Flows from Operating Activities**

Cash Received from State	\$1,176,153
Cash Received from Charges for Services & Other Receipts	4,498
Cash Payments to Employees for Services	(586,196)
Cash Payments for Employee Benefits	(115,844)
Cash Payments to Suppliers for Goods and Services	<u>(459,614)</u>
Net Cash Used for Operating Activities	<u>18,997</u>

**Cash Flows from Noncapital Financing Activities**

Grants Received	<u>116,460</u>
Net Cash Provided by Noncapital Financing Activities	<u>116,460</u>

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

Proceeds of Mortgage	975,000
Payments for Capital Acquisitions	(1,033,987)
Proceeds of Loan	17,817
Capital Lease Payments	(1,992)
Repayment of Mortgage and Notes, Including Interest	<u>(104,415)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(147,577)</u>

Net Decrease in Cash and Cash Equivalents (12,120)

Cash beginning of year 15,901

Cash end of year \$ 3,781

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

Operating Income \$ 5,636

**Adjustment to Reconcile Operating Income to Net Cash Used for Operating Activities**

Depreciation	28,359
Changes in Assets and Liabilities:	
Increase in Intergovernmental Receivable	(24,217)
Increase in Accounts Payable	8,667
Increase in Accrued Wages & Benefits	8,118
Decrease in Intergovernmental Payable	<u>(7,566)</u>
Total Adjustments	13,361

Net Cash Used for Operating Activities \$ 18,997

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

**HAMILTON COUNTY MATHEMATICS AND SCIENCE ACADEMY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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**NOTE 1 – DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY**

Hamilton County Mathematics and Science Academy, (the Academy) is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to address the needs of students in kindergarten through grade four. The Academy, which is part of the State's education program, is independent of any School district. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy.

The Academy was approved for operation under contract with the Ohio State Board of Education (the Sponsor) for a period of five years commencing July 1, 2001. However, the Ohio State Board of Education subsequently decided to suspend its sponsorship of community schools and the Academy obtained Lucas County Educational Service Center as its sponsor for the school year beginning July 1, 2005. This agreement is renewable each year.

The Academy operates under the direction of a three-member Board of Trustees. The Board of Directors 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 Board of Trustees controls the Academy's one instructional/support facility staffed by 20 full time teaching personnel who provide services to 350 students.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Academy 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 Academy also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities, provided they do not conflict with or contradict GASB pronouncements; however the Academy has elected not to follow any FASB statements or interpretations after November 30, 1989. The more significant of the Academy's accounting policies are described below.

**A. Basis Of Presentation**

The Academy's basic financial statements consist of a statement of net assets, a statement of revenue, expenses and changes in net assets, and a statement of cash flows.

Enterprise fund reporting focuses on the determination of the change in net assets, financial position and cash flows.

**HAMILTON COUNTY MATHEMATICS AND SCIENCE ACADEMY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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**B. 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 statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Academy's finances and meets the cash flow needs of its enterprise activities.

**C. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the accrual basis of accounting.

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 Academy 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 Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

Expenses are recognized at the time they are incurred.

**D. 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 Revised Code Chapter 5705, unless specifically provided in the contract between the school and its sponsor. The contract between the Academy and its Sponsor, the Lucas County Educational Service Center, does not prescribe a budgetary process for the Academy; therefore no budgetary information is presented in the financial statements.

**E. Cash and Cash Equivalents**

All monies received by the Academy are maintained in a demand deposit account. For internal accounting purposes, the Academy segregates its cash. Total cash is presented as "cash" on the accompanying statement of net assets.

**HAMILTON COUNTY MATHEMATICS AND SCIENCE ACADEMY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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**F. Capital Assets**

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 values as of the date received. The Academy maintains a capitalization threshold of one thousand dollars. The Academy does not possess any infrastructure.

Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

Furniture and equipment are depreciated using the straight-line method over the estimated useful life of five years. Buildings are depreciated using the straight-line method over the estimated useful life of 40 years. Improvements are depreciated over the remaining useful lives of the related capital assets.

**G. Net Assets**

Net assets represent the difference between assets and liabilities. Investments in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets.

**H. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activities. For the Academy, these revenues are primarily foundation payments from the state. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the Academy. Revenues and expenses not meeting this definition are reported as non-operating.

**I. Contributions of Capital**

Contributions of capital arise from outside contributions of capital assets, or from grants or outside contributions of resources restricted to capital acquisition and construction. The Academy received no capital contributions during fiscal year 2005.

**J. 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 those estimates.

**HAMILTON COUNTY MATHEMATICS AND SCIENCE ACADEMY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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**NOTE 3 – DEPOSITS**

At fiscal year end, the carrying amount of the Academy’s deposits was \$3,781, and the bank balance was \$19,230. The bank balance was covered by federal depository insurance.

*Investments:* The Academy had no investments at June 30, 2005, or during the fiscal year.

**NOTE 4 - RECEIVABLES**

The Academy had intergovernmental receivables in the amount of \$15,574 and \$8,643 due from SERS and STRS, respectively at June 30, 2005.

**NOTE 5 – CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2005:

	Balance 6/30/04	Additions	Deletions	Balance 6/30/05
<b>Business-Type Activity</b>				
Capital Assets Not Being Depreciated				
Land	\$0	\$25,000	\$0	\$25,000
Capital Assets Being Depreciated				
Buildings and Improvements	0	990,949	0	990,949
Furniture, Fixtures, and Equipment	8,904	18,038	0	26,942
Total Capital Assets				
Being Depreciated	8,904	1,008,987	0	1,017,891
Less Accumulated Depreciation:				
Buildings and Improvements	0	24,774	0	24,774
Furniture, Fixtures, and Equipment	395	3,585	0	3,980
Total Accumulated Depreciation	395	28,359	0	28,754
Total Capital Assets				
Being Depreciated, Net	8,509	980,628	0	989,137
Business-Type Activity				
Capital Assets, Net	\$8,509	\$1,005,628	\$0	\$1,014,137

**HAMILTON COUNTY MATHEMATICS AND SCIENCE ACADEMY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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**NOTE 6 - RISK MANAGEMENT**

**A. Property and Liability**

The Academy is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the Academy contracted with a commercial carrier for general liability, rental/theft, and directors and officers' liability insurance.

There has been no significant change in insurance coverage from last year. Settled claims have not exceeded commercial coverage in either of the past two years.

**B. Workers' Compensation**

The Academy pays the State Workers' Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

**NOTE 7 - DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The Academy 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. 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 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 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 Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$21,482, \$18,065, and \$20,516, respectively; 100 percent has been contributed for all fiscal years.

**HAMILTON COUNTY MATHEMATICS AND SCIENCE ACADEMY**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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**B. State Teachers Retirement System of Ohio**

The Academy 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 or by calling (614) 227-4090.

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 times 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.

A DB 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 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, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. 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 Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2005, 2004, and 2003 were \$44,316, \$27,021, and \$28,287, respectively; 90% was contributed for 2005 and 100 percent has been contributed for 2004 and 2003.

**HAMILTON COUNTY MATHEMATICS AND SCIENCE ACADEMY**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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**NOTE 8 - POSTEMPLOYMENT BENEFITS**

The Academy 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 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.

STRS 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. 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, 2005, the STRS Ohio Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Stabilization Fund. At June 30, 2005 the balance in the fund was \$3.1 billion. Net health care costs paid by STRS were \$282,743,000 and STRS had 119,184 eligible benefit participants. For the Academy, this amount equaled \$3,165 for fiscal year 2005.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

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, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. 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 2005, the minimum pay was established at \$27,400. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2005 fiscal year equaled \$5,263.

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 reserve is 150 percent 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 net 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 least 150% of estimated annual net claim costs. The number of participants eligible to receive benefits at June 30, 2005 was 58,123.

**HAMILTON COUNTY MATHEMATICS AND SCIENCE ACADEMY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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**NOTE 9 - EMPLOYEE BENEFITS**

**A. Compensated Absences**

All employees are at-will employees and do not have contracts as employees in the traditional school districts.

Salaried employees accrue sick time of five (5) days per school year and are awarded two (2) personal days at the beginning of the school year. Employees earn .5 days of sick leave from September through June to be used for personal and family illness. Personal leave is non-accumulating and may be used for any reason in increments of one half hour. Personal leave balances at school year end are paid out at 100% of the employee's hourly rate.

Hourly rate employees do not accrue leave and are paid based upon hours worked only. Upon separation of service, employees are not paid for unused personal or sick leave time.

**B. Insurance Benefits**

The Academy has contracted with a private carrier to provide employee medical/surgical, dental, and vision benefits. The Academy pays 80% of the monthly premium and the employee is responsible for the remaining 20%. Insurance premiums vary by employee depending upon such factors as age, gender, and number of covered dependents.

**NOTE 10 – CAPITAL LEASE**

The Academy leases a copier. The terms of the agreement provide an option to purchase the equipment.

The future minimum lease payments for the leases are as follows:

<u>Year Ending</u>	<u>Amount</u>
June 30, 2006	<u>\$1,594</u>

**NOTE 11 – PURCHASED SERVICES**

For the fiscal period July 1, 2005 through June 30, 2006, purchased service expenses were payments for services rendered by various vendors as follows:

Professional/Technical Services	\$ 148,101
Property Services	85,428
Contracted Trade Services	<u>37,445</u>
Total	<u>\$270,974</u>

**HAMILTON COUNTY MATHEMATICS AND SCIENCE ACADEMY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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**NOTE 12 – NON-CURRENT LIABILITIES**

The activity of the Academy’s debt is summarized as follows:

<u>Description:</u>	<u>Principal Outstanding 6/30/04</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Principal Outstanding 6/30/05</u>	<u>Amounts Due in One Year</u>
Mangrum 6.5% Demand Note	\$ 16,500	\$ -	\$16,500	\$ -	\$ -
Land Contract at 9%	-	975,000	15,101	959,899	105,276
Capital Lease at 5%	3,586	-	1,992	1,594	1,594
Equipment Loan at 5%	-	17,817	-	17,817	4,032
<b>Total</b>	<u>\$20,086</u>	<u>\$992,817</u>	<u>\$33,593</u>	<u>\$979,310</u>	<u>\$110,902</u>

On August 15, 2004 the Academy entered into a land installment contract for the purchase of land and a building in the amount of \$975,000 through First Financial Services, Inc. The mortgage is amortized over 20 years at 9% per annum with a balloon payment due July 1, 2008.

**NOTE 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 decision 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 Academy is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

**NOTE 14 - CONTINGENCIES**

**A. Grants**

The Academy received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2005.

**HAMILTON COUNTY MATHEMATICS AND SCIENCE ACADEMY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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**B. State Funding**

The Ohio Department of Education reviews enrollment data and full time equivalency (FTE) calculations made by the Academy. These reviews ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The Academy does not anticipate any material adjustments to state funding for fiscal year 2005 as a result of such 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 counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard for oral argument 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 Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral arguments occurred November 29, 2005. On October 25, 2006, the Ohio Supreme Court ruled that the Community Schools are constitutional.

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*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**

Hamilton County Mathematics and Science Academy  
7601 Harrison Avenue  
Cincinnati, Ohio 45231

To the Board of Directors:

We were engaged to audit the financial statements of the Hamilton County Mathematics and Science Academy (the Academy) as of and for the year ended June 30, 2005 and have issued our report thereon dated November 6, 2007. We did not express an opinion on those financial statements because we were unable to obtain sufficient competent evidential matter related to various asset, liability, revenue and expense balances and we were not able to obtain required representations from management or confirm balances with banks and creditors.

Internal Controls Over Financial Reporting

In planning and performing our audit, we considered the Academy'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 certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Academy's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2005-HAM-01 through 2005-HAM-04.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above, items 2005-HAM-02 and 2005-HAM-04 to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy'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 instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2005-HAM-01 and 2005-HAM-03.

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

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

November 6, 2007

HAMILTON COUNTY MATHEMATICS AND SCIENCE ACADEMY  
HAMILTON COUNTY  
SCHEDULE OF FINDINGS  
JUNE 30, 2005

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

Finding Number: 2005-HAM-01

**Non-Compliance/Reportable Condition - Purchasing**

The Academy did not comply with the Financial Plan, Exhibit 2, Plan for Purchasing Supplies and Materials, of the contract with the Ohio Department of Education. The Plan for Purchasing Supplies and Materials states that the Office Clerk will initiate the ordering of basic office supplies, and use a purchase order signed/approved by two Board members. In addition, the person receiving an order will verify the quantity of supplies and the original invoice is to be matched to the purchase order and into the computer system for payment. None of the expenditures we reviewed were signed by two Board members.

We recommend the Academy obtain approved purchased orders in accordance with their contract with the Ohio Department of Education and retain all supporting documentation related to purchases.

Management Response:

We did not receive a management response.

FINDING NUMBER 2005-HAM-02

**Material Weakness – Segregation of Duties**

The Academy did not have on-site accounting personnel responsible for day to day operations or preparation of financial statements. Therefore, the Academy hired an accounting firm to act as fiscal officer and to provide accounting services and prepare financial statements. This fiscal officer processed all transactions including signing checks, posting to the general ledger and reconciling bank accounts. Therefore, errors could occur without timely detection by management.

We recommend that a Board member sign all checks in addition to the fiscal officer. In addition, monthly bank reconciliations should be reviewed and approved by a Board member.

Management Response:

We did not receive a response from management.

FINDING NUMBER 2005-HAM-03

**Noncompliance/Reportable Condition – Capital Assets**

The Academy's did not follow its procedures for the purchase and accounting of capital assets. The Financial Plan, Exhibit 2, of the Hamilton County Mathematics and Science Academy Community School Contract with the Ohio Department of Education states that:

Capital Assets are defined as assets with a life greater than a year and with a value of at least \$1,000.

HAMILTON COUNTY MATHEMATICS AND SCIENCE ACADEMY  
HAMILTON COUNTY

SCHEDULE OF FINDINGS - Continued  
JUNE 30, 2005

FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - Continued

FINDING NUMBER 2005-HAM-03-(Continued)

The Plan for purchasing capital assets are as follows:

1. A competitive search will be completed with of a minimum of three vendors.
2. A purchase order will be completed with two officers of the school approving that purchase order.
3. Another individual other than the person originating the order receives the equipment at the school.

Once the items are received the following process is to be completed:

1. An asset number is assigned to the equipment
2. A property tag is created and attached to the asset
3. The purchase order is matched with the original invoice from the vendor for accuracy of price and the number of pieces ordered
4. Information that is needed for the computerized physical asset listing; (i.e., purchase date, purchase price, quantity, whose funds were expended for the asset) is entered into the system.

We noted that the Academy failed to follow the procedures established in the Contract including utilizing purchase orders. Also many of the equipment purchases which were capitalized failed to meet the \$1,000 threshold for capitalization.

We recommend that the Academy follow the procedures established in its financial plan for the purchase and safeguarding of capital assets.

Management Response:

We did not receive a management response.

HAMILTON COUNTY MATHEMATICS AND SCIENCE ACADEMY  
HAMILTON COUNTY

SCHEDULE OF FINDINGS - Continued  
JUNE 30, 2005

FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - Continued

FINDING NUMBER 2005-HAM-04

**Material Weakness – Inadequate Records**

Proper internal accounting control provides that the Academy should maintain an accounting system and accounting records sufficient to enable it to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements.

However, the Academy did not retain documentation related to various assets, liabilities, revenues or expenses after it moved its location.

We recommend that the Academy implement procedures to insure that records are retained for an appropriate period.

Management Response:

We did not receive a management response.

**HAMILTON COUNTY MATHEMATICS AND SCIENCE ACADEMY  
HAMILTON COUNTY, OHIO  
SCHEDULE OF PRIOR AUDIT FINDINGS  
For the Year Ended June 30, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2004-001	Purchase orders not signed by Board	No	Repeated as Finding 2005-HAM-01
2004-002	Medicare not withheld from employees	Yes	
2004-003	Material weakness-Lack of Board oversight; lack of segregation of duties	No	Partially corrected; Repeated as Finding 2005-HAM-02
2004-004	Reportable condition-uncategorized funds account	Not Determinable	
2004-005	Noncompliance/Reportable condition-capital assets policy not followed	No	Repeated as Finding 2005-HAM-03



**Mary Taylor, CPA**  
Auditor of State

**HAMILTON COUNTY MATHEMATICS AND SCIENCE ACADEMY**

**HAMILTON 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  
APRIL 22, 2008**