HAMILTON COUNTY MATHEMATICS AND SCIENCE ACADEMY
HAMILTON COUNTY

REGULAR AUDIT

FOR THE YEARS ENDED JUNE 30, 2004

Auditor of State
Betty Montgomery

HAMILTON COUNTY MATHEMATICS AND SCIENCE ACADEMY
HAMILTON COUNTY

TABLE OF CONTENTS

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INDEPENDENT ACCOUNTANTS' REPORT

Hamilton County Mathematics and Science Academy
Hamilton County
7601 Harrison Avenue
Mt. Healthy, OH 45231

To The Board of Trustees:

We have audited the accompanying basic financial statements of Hamilton County Mathematics and Science Academy, Hamilton County, Ohio (the Academy), as of and for the year ended June 30, 2004, 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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.

As described in Note 3, during the year ended June 30, 2004, the Academy implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Academy, as of June 30, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with auditing principles generally accepted in the United States of America.

The Auditor of State has billed the Academy for audit services provided for fiscal year 2002 and for fiscal year 2003. As of the date of this report, the Academy has been billed a total of $18,339 for fiscal year 2002 and $15,788 for fiscal year 2003, and has paid $7,500 of these amounts.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2005 on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However we did not audit the information and express no opinion on it.

Betty Montgomery

Betty Montgomery
Auditor of State

September 30, 2005

MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Unaudited)

The discussion and analysis of the Hamilton County Mathematics and Science Academy's, Hamilton County, Ohio (the Academy), financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

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

Financial Highlights

- In total, net assets decreased $55,263 (from Table 1) which represents a 91 percent decrease from 2003. This decrease was due to an increase in expenses which slightly outpaced revenues. Expenses and revenues increased due to higher student enrollment.

- Total assets decreased $12,927 (from Table 1) which represents a 53 percent decrease from 2003. The principal component of this decrease was due to the timing of state grant receipts and less intergovernmental receivables.

- Liabilities increased $42,246 (from Table 1) which represents a 54 increase from 2003. Accounts payable increased. The majority of the increase in liabilities stemmed from loan proceeds which increased by $16,500 in 2004.

Using this Financial Report

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows.

Statement of Net Assets

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets, answer the question, "How did we do financially during 2004?" These statements include all assets, liabilities, revenues and expenses, both financial and capital, and short-term and long-term using the accrual basis of accounting and 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.

Table 1 provides a summary of the Academy's net assets for fiscal year 2004 and fiscal year 2003:

(Table 1)

Net Assets

	2004	2003	Variance
Assets			
Current Assets	$15,901	$30,408	($14,507)
Capital Assets, Net	8,509	6,929	1,580
Total Assets	24,410	37,337	(12,927)
Liabilities			
Current Liabilities	83,641	38,088	45,553
Non-Current Liabilities	1,594	4,901	(3,307)
Total Liabilities	85,235	42,989	42,246
Net Assets			
Unrestricted	(60,825)	(5,562)	(55,263)
Total Net Assets	($60,825)	($5,562)	($55,263)

Total assets decreased by $12,927. This decrease was primarily due to a decrease in intergovernmental receivables from the prior year. Equity in pooled cash and cash equivalents increased by $9,008 from 2003. Intergovernmental Receivables decreased by $23,515. This decrease was due to the timing of the receipt of some grants.

Table 2 shows the changes in net assets for fiscal year 2004 and fiscal year 2003, as well as a listing of revenues and expenses.

MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Unaudited)
(Continued)

(Table 2)

Change in Net Assets

	2004	2003	Variance
Operating Revenues:			
Program Revenues:			
Foundation Payments	$672,312	$435,334	$236,978
State Special Eduaction Program	5,793	0	5,793
Disadvantaged Pupil Impact Aid	72,323	70,905	1,418
Extracurricular and Lunchroom Sales	14,813	0	14,813
Other	1,368	7,926	(6,558)
Total Program Revenues	766,609	514,165	252,444
Non-Operating Revenues:			
Federal and State Grants	126,410	200,892	(74,482)
Contributions and Donations	2,771	7,091	(4,320)
Federal and State Meal Subsidies	35,693	22,746	12,947
Total Revenues	931,483	744,894	$186,589
Operating Expenses			
Salaries	362,839	392,092	(29,253)
Fringe Benefits	183,272	83,585	99,687
Purchased Services	285,906	75,028	210,878
Cost of Sales - Lunchroom	57,256	0	57,256
Supplies and Materials	74,655	71,980	2,675
Depreciation	395	0	395
Other Expenses	22,333	101,217	(78,884)
Non-Operating Expenses:			
Interest	0	1,083	(1,083)
Total Expenses	986,656	724,985	$261,671
Change in Net Assets	($55,173)	$19,909	($75,082)

Net asset change from 2003 to 2004, was driven by the increase in Purchased Services and Cost of Sales. This increase was a combination of normal inflationary increases plus timing of purchases Salaries decreased $22,039 due to staffing adjustments occasioned by student population shifts. Fringe Benefits increased due to an increase in medical withholdings requiring the employee to pay up a larger portion of the costs. Purchase Services increased from prior year due in large part to the fact that the building lease was not classified as a Purchased Service in prior year and in 2004 the lease was in Purchased Services. Other Expenses went down for the reason that Purchased Services increased, the lease was classified as Other Expenses in the prior year. This change in expenditure classification will be disclosed in the Notes to the Financial Statements. Foundation Payments increased due to an increase in the student population. Federal and State Grants decreased due to large amount of Title IID that was received in fiscal year 2003.

Capital Assets

At the end of fiscal year 2004 the Academy had $8,904 invested in a Capital Lease and Furniture and Equipment which represented an increase of $1,975 from 2003. Table 3 shows fiscal year 2004 and fiscal year 2003:

(Table 3)

Capital Assets at June 30, 2004
(Net of Depreciation)

	2004	2003	Variance
Furniture, Fixtures, and Equipment	1,975	0	$1,975
Capital Lease	6,929	6,929	$0
Totals	$8,904	$6,929	$1,975

For more information on capital assets see Note 5 to the basic financial statements.

Debt – Notes Payable

At June 30, 2004, the District had $16,500 in debt outstanding, all of which is due within one year. Table 4 summarizes bonds outstanding.

Table 4
Outstanding Debt, at Year End

	2004
Total:	
Demand Note:	
Robert Manggrum Note Payable	$16,500

Demand note between Robert Manggrum and the Academy due no later than fiscal year 2005.

Contacting the Academy's Financial Management

This financial report is designed to provide our citizens with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional information contact Mr. Carl W. Shye Jr., Treasurer, at the Hamilton County Mathematics and Science Academy, 7601 Harrison Avenue, Mt. Healthy, Ohio 45231 or e-mail at Carl@CarlShye.com.

HAMILTON COUNTY MATHEMATICS AND SCIENCE ACADEMY
HAMILTON COUNTY

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2004

	2004
Assets	
Current Assets	
Cash	$15,901
Total Current Assets	15,901
Non-Current Assets	
Fixed Assets (Net of Accumulated Depreciation)	8,509
Total Assets	$24,410
Liabilities	
Current Liabilities	
Accounts payable	$57,583
Intergovernmental payable	7,566
Loan Due Within One Year	16,500
Capital Lease Due Within One Year	1,992
Total Current Liabilities	83,641
Non-Current Liabilities	
Capital Lease Due in More Than One Year	1,594
Total Liabilities	85,235
Net Assets	
Unrestricted	(60,825)
Total Net Assets	($60,825)

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, 2004

		2004
Operating Revenues		
Foundation payments	$	672,312
State special education program		5,793
DPIA		72,323
Extracurricular & Lunchroom Sales		14,813
Other		1,368
Total Operating Revenues		766,609
Operating Expenses		
Salaries		362,839
Fringe Benefits		183,272
Purchased Services		285,906
Cost of Sales - Lunchroom		57,256
Supplies and materials		74,655
Depreciation		395
Other		22,333
Total Operating Expenses		986,656
Operating (Loss)		(220,047)
Non-operating Revenues		
Federal & State Grants		126,410
Donations		2,771
Federal and State Meal Subsidies		35,693
Total Non-Operating Revenues		164,874
Change in Net Assets		(55,173)
Net Assets Beginning of year		(5,652)
Net Assets End of year	$	(60,825)

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 FISCAL YEAR ENDED JUNE 30, 2004

Increase (Decrease) in Cash and Cash Equivalents:	**2004**
Cash Flows from Operating Activities:	
Cash Received from State of Ohio	$ 750,428
Cash Payments to Employees for Services	(540,143)
Cash Payments to Suppliers for Goods and Services	(386,568)
Other Operating Revenue	16,181
Cash Payments to Others	(22,333)
Net Cash Used for Operating Activities	(182,435)
Cash Flows from Noncapital Financing Activities:	
Federal and State Subsidies Received	35,693
Contributions	2,771
State and Federal Grants Received	149,924
Net Cash Provided by Noncapital Financing Activities	188,388
Cash Flows from Capital and Related Financing Activities:	
Capital Lease Payments Including Interest	(3,342)
Repayment of Loan Including Interest	(8,128)
Proceeds of Loan	16,500
Payments for Capital Acquisitions	(1,975)
Net Cash Used for Noncapital Financing Activities	3,055
Net Increase in Cash and Cash Equivalents	9,008
Cash and Cash Equivalents at Beginning of Year	6,893
Cash and Cash Equivalents at End of Year	$15,901
Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating Loss	($220,047)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation	395
Changes in Assets and Liabilities:	
Increase (Decrease) in Accounts Payable	31,299
Decrease in Interest Payable	(50)
Increase in Intergovernmental Payable	5,968
Total Adjustments	37,612
Net Cash Used for Operating Activities	($182,435)

See accompanying notes to the basic financial statements

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Hamilton County Mathematics and Science Academy, Hamilton County, Ohio (the Academy), is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching services. The Academy, 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 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 Department of Education (the Sponsor) for a period of five years commencing July 1, 2001. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. Starting the 2005 School Year the Ohio Department of Education is no longer permitted to sponsor charter schools. Due to this legislative change, Lucas County Educational Service Center will be the sponsor for the Academy beginning school year 2005.

The Academy operated under a self-appointing three-member Board of Trustees (the Board). The Academy's Code of Regulations specify that vacancies that arise on the Board are filled by the appointment of a successor trustee by a majority vote of the ten existing trustees. The Board is responsible for carrying out the provisions of the contract with the Sponsor 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 3 non-certified and 3 certified full-time teaching personnel who provided services to 60 students.

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, provided they do not conflict with or contradict GASB pronouncements. 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.

The Academy uses enterprise accounting to maintain its financial records. Enterprise fund reporting focuses on the determination of the change in net assets, financial position and cash flows.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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 Academy and its sponsor. The contract between the Academy and its Sponsor does not prescribe formal budgetary provisions; however, it does prescribe that the Academy's Administrator compares budget income and expense to actual figures on a regular basis and also prescribes that the finance committee will review and compare the budgetary expenses and income from reports prepared by the Academy's treasurer on a monthly basis. The finance committee is required to report their recommendations to the Board of Trustees.

E. Capital Assets and Depreciation

The Academy maintains a capitalization threshold of one thousand dollars. The Academy does not possess any infrastructure.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Leasehold improvements on the school building were capitalized the one year lease.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Furniture and Equipment	5 years

F. Net Assets

Net assets represent the difference between assets and liabilities. Assets, net of related debt, consist 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.

G. 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. Operating expenses are the necessary costs incurred to provide the goods or services that occur in carrying out the primary activity of the Academy. Revenues and expenses not meeting this definition are reported as non-operating.

H. 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.

3. CHANGE IN ACCOUNTING PRINCIPLES

A. Changes in Accounting Principles

For fiscal year 2004, the Academy has implemented GASB Statement No. 34, “Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments”, GASB Statement No. 37, “Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus”, Statement No. 38, “Certain Financial Statement Note Disclosures”, GASB Statement No. 39, “Determining Whether Certain Organizations are Component Units”, GASB Statement No. 41, “Budgetary Comparison Schedules – Perspective Differences”, and GASB Interpretation No. 6, “Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.”

GASB Statement No. 34 creates new basic financial statements for reporting on the Academy’s financial activities.

GASB Statement No. 37 clarifies certain provisions of GASB Statement No. 34, including the required content of Management’s Discussion and Analysis, the classification of program revenues and the criteria for determining major funds.

3. CHANGE IN ACCOUNTING PRINCIPLES (Continued)

GASB Statement No. 38 modifies, establishes and rescinds certain financial statement not disclosures.

The Academy's only enterprise fund had an accumulated deficit at June 30, 2003 of $5,652 which was reclassified to unrestricted net assets.

4. DEPOSITS

At fiscal year end, the carrying amount of the Academy's deposits was $15,901 and the bank balance was $16,832. Of the bank balance, all was covered by federal depository insurance.

Investments: The Academy had no investments at June 30, 2004, or during the fiscal year.

5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004:

	Balance 6/30/03	Additions	Deletions	Balance 6/30/04
Business-Type Activity				
Capital Assets Being Depreciated				
Capital Lease	6,929	0	0	6,929
Furniture, Fixtures, and Equipment	0	1,975	0	1,975
Total Capital Assets Being Depreciated	6,929	1,975	0	8,904
Less Accumulated Depreciation:				
Furniture, Fixtures, and Equipment	0	395	0	395
Total Accumulated Depreciation	0	395	0	395
Business-Type Activity Capital Assets, Net	$6,929	$1,580	$0	$8,509

6. RISK MANAGEMENT

A. Property and Liability

The Academy is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2004, the Academy contracted with Scottsdale Surplus Lines Insurance Company for property and general liability insurance. There is a $500 deductible for the general liability and a $ 1,000 deductible for property insurance.

6. RISK MANAGEMENT (Continued)

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.

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 9 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 2003, 8.17 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, 2004, 2003, and 2002 were $18,065, $20,516, and $14,556 respectively; ninety-nine percent has been contributed for fiscal year 2004 and 100 percent for fiscal year 2003.

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.

8. DEFINED BENEFIT PENSION PLANS (Continued)

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.

For the fiscal year ended June 30, 2004, 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, 2004, 2003, and 2002 were $27,021, $28,287 and $16,100, respectively; ninety-eight percent has been contributed for fiscal year 2004 and 100 percent for fiscal year 2003.

9. 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.

All STRS Ohio benefit recipients and sponsored 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. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Ohio Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. For the Academy, this amount equaled $2,906 for fiscal year 2004.

9. POSTEMPLOYMENT BENEFITS (Continued)

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2003, (the latest information available) the balance in the Fund was $2.8 billion. For the year ended June 30, 2002, net health care costs paid by STRS Ohio were $352.3 million and STRS Ohio had 108,294 eligible benefit recipients.

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

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, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay was established at $14,500. For the Academy, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled $1,053.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2003 (the latest information available), were $204.9 million and the target level was $307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of $303.6 million. SERS has approximately 50,000 participants currently receiving health care benefits.

10. OPERATING LEASE

The Academy leases a building from the Christ Memorial AOH Church of God. The lease payments are $ 8,167 per month. The Academy paid $ 96,374 during fiscal year 2004, which includes the monthly lease payments and the security deposit.

11. CAPITAL LEASE – LESSEE DISCLOSURE

During the fiscal year 2003, the Academy entered into a 60 month lease agreement with De Lage Landen for the acquisition of a copier machine. The terms of the Agreement provide options to purchase the equipment.

This lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee.

The capital assets acquired have been capitalized in the amount of $6,929 which is equal to the present value of the future minimum lease payments at the time of acquisition. A corresponding liability was recorded. Principal payments in fiscal year 2004 totaled $3,343.

11. CAPITAL LEASE – LESSEE DISCLOSURE (Continued)

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2004. Interest is not material.

Fiscal Year Ending June 30,	Obligations
2005	1,992
2006	1,594
Present Value of Minimum Lease Payments	$ 3,586

12. NON-CURRENT LIABILITIES

Obligations		Principal Outstanding 6/30/03	Principal Payments	Principal Outstanding 6/30/04	Amounts Due in One Year	Amounts Due in More ThanOne Year
Manggrum Demand Note						
June 30, 2004	6.5%	$ -	$ -	$ 16,500	$ 16,500	$ -
Capitalized Lease		6,929	3,343	3,586	1,992	1,594
Total		$ 6,929	$ 3,343	$ 20,086	$ 18,492	$ 1,594

On October 29, 2003, the Academy entered an agreement with Robert Manggrum, for a demand note in the amount of $16,000. The note contained a maturity date of no later than fiscal year 2004 and carried an interest rate o 6.5% annually. The Academy actually received $16,500 and the loan was outstanding at the end of fiscal year 2004. Payment was made in full on July 12, 2004.

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.

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, 2004.

B. State Funding

The Ohio Department of Education reviews enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews ensure the schools are reporting accurate student enrollment data of the State, upon which state foundation funding is calculated. For fiscal year 2004, the review was completed in January 2005. For the Academy, there was an insignificant variance between the amount received to date and the final payment made to the Academy. This variance will have no effect on the financial standing of the Academy.

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. One August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public education 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. No oral argument has been set to date. The effect of this suit, if any on the Academy is not presently determinable.

15. RELATED PARTY TRANSACTIONS

The Academy obtained a $30,000 commercial loan line of credit with Fifth Third Bank. The chairperson of the Board pledged her personal stock as collateral for the commercial loan. As of June 30, 2004, the line of credit was paid in full.

The Academy entered into a demand note for $16,500 with Robert Manggrum, who is the spouse of the chairperson of the Board.

16. PURCHASED SERVICES

For the year ended June 30, 2004, purchased service expenses were comprised of the following:

Professional & Technical	1,643
Student Testing & Evaluation	25,540
Staff Development	810
Management Services	47,640
Data Processing Services	7,356
Legal Services	17,011
Mileage/Travel reimbursement	900
Communications	3,591
Postage	1,212
Pupil Transportation	621
Security Services	10,232
Trash Removal	1,111
Repair & Maintenance	42,760
Property Insurance	589
School Site Lease	96,390
Equipment Leasing	1,529
Pest Control	1,606
Gas & Electricity	23,982
Water & Sewer	1,383
Total Purchased Services	$ 285,906

The school site lease was reclassified into purchased services during the 2004 school year. During prior years this lease was classified in other expenses, therefore, there is a large increase in purchased services between the last year and the current year.

17. MANAGEMENT'S PLAN REGARDING NEGATIVE NET ASSETS

The Academy accumulated a total net asset deficit of $60,825 for the year ended June 30, 2004. Management plans to monitor and control expenses as they attempt to eliminate the operating deficit.

18. SUBSEQUENT EVENTS

On August 15, 2004 the Academy entered a land contract mortgage and building purchase in the amount of $975,000 through First Financial Services, Inc. The mortgage matures in 20 years with a 9% interest rate compounding monthly.

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Hamilton County Mathematics and Science Academy
Hamilton County
7601 Harrison Avenue
Mt. Healthy, OH 45231

To the Board of Trustees:

We have audited the basic financial statements of Hamilton County Mathematics and Science Academy, Hamilton County, Ohio (the Academy), as of and for the year ended June 30, 2004, and have issued our report thereon dated September 30, 2005, wherein we noted that the Academy adopted Governmental Accounting Standards Board Statement 34. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine 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 management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2004-001 through 2004-005.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when 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 material weaknesses. We consider reportable conditions 2004-003 through 2004-005 listed above to be material weaknesses. In a separate letter to the Academy's management dated September 30, 2005 we reported another matter involving the internal control over financial reporting which we did not deem a reportable condition.

Compliance and Other Matters

As part of reasonably assuring the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2004-001, 2004-002 and 2004-006. In a separate letter to the Academy's management dated September 30, 2005 we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management, and the Board of Trustees. It is not intended for anyone other than these specified parties.

Betty Montgomery

Betty Montgomery
Auditor of State

September 30, 2005

HAMILTON COUNTY MATHEMATICS AND SCIENCE ACADEMY
HAMILTON COUNTY

SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2004

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

FINDING NUMBER 2004-001

Noncompliance/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 purchase orders we reviewed were signed by two Board members. Furthermore, twelve percent of purchase orders were not numbered or dated, fifteen percent were illegible, six percent had no invoice attached and there was no evidence of verification of quantity of supplies.

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

FINDING NUMBER 2004-002

Noncompliance/Reportable Condition – Medicare Withholdings

26 USC, Section 3102(A), requires that Medicare Tax be withheld from all employees hired on or after March 31, 1986. The contribution rate for this coverage is 1.45% of payroll for the employee share and 1.45% of payroll for the employer share. The Academy did not withhold or remit any Medicare tax for employees hired on or after March 31, 1986.

We recommend that Medicare taxes be deducted from all employees hired after March 31, 1986.

FINDING NUMBER 2004-003

Material Weakness – Board Oversight of Financial Statements & Segregation of Duties

The Academy did not have on-site accounting personnel responsible for day to day operations and proper financial statement presentation. The Academy has hired an accounting firm to act as fiscal officer and to provide accounting services and prepare financial statements. There was no evidence that Board members reviewed financial activity or financial statements prepared by the accounting firm.

The unaudited statements were not fairly presented. Incorrect amounts were used on the cash reconciliation and amounts that had already cleared the bank were used as reconciling items. The client made adjustments to the cash balance after the balance sheet date to both the federal grants and miscellaneous receipts line items.

We recommend that the Academy's Board members gain the knowledge to review financial activity and financial statements, or hire an outside party to assist the Board. We also recommend that the Board receive and review financial statements at the regularly scheduled Board meetings. These reports should include the bank reconciliations, list of bills paid and detail of revenues received after the last Board meeting.

FINDING NUMBER 2004-003
(Continued)

Furthermore, the small size of the Academy's staff does not allow for an adequate segregation of duties. The Accountant/Treasurer processes all the financial record keeping including receipting, signing checks, posting and reconciling to the depository. Bookkeeping errors may occur without timely detection by management; therefore, it is important that the Academy's Board Members monitor financial activity.

We believe the following conditions indicate a need for increased oversight of management by the Board:

- There was no documentation of the Board approving the monthly financial reports at any of the monthly Board meetings.

- For ninety-seven percent of expenditures tested, only the Accountant/Treasurer signed checks.

To maintain continuing accountability and to strengthen internal accounting controls, the Board should periodically review the records to determine accuracy and to assure themselves that proper procedures are followed by the fiscal officer. For each regular Board meeting, the Treasurer should provide Board members with detailed budget and actual financial statements, cash balances, checks paid, and bank reconciliations. These periodic reviews should be noted in the minutes and documents reviewed should be initialed by the reviewer.

FINDING NUMBER 2004-004

Reportable Condition – Uncategorized Funds Account

The Academy has not correctly accounted for its Uncategorized Funds Account. The account was not recorded to the accounting system nor the Academy's basic financial statements. We determined the Academy was using the unposted funds received to make purchases and had an outside checking account for receipts and expenditures. During the year ended June 30, 2004, deposits to this bank account were $2,419 and expenditures from this bank account were $1,324, with an ending balance of $1,095.

The receipts and expenditures that passed through this account were not properly posted to the accounting system and therefore were not subject to any of the internal controls over receipts and expenditures that the Academy has in place.

To improve accountability over all transactions and lessen the chance of errors occurring and not being detected, the Academy should implement the following procedures which will improve control over fundraising or extracurricular student activity functions:

1. All receipts and expenditures should be accounted for on the School's books;

2. All entries should be posted in chronological order and reflect year-to-date totals;

3. The uncategorized funds account should maintain a duplicate receipt book which should be reconciled with pay-ins to the Treasurer on a monthly basis.

Implementation of these procedures will add a measure of control over these fundraising transactions, as well as, reduce the risk that fundraising activity is not properly handled and fairly presented on the School's books and financial reports.

FINDING NUMBER 2004-005

Noncompliance/Reportable Condition – Capital Assets

The Academy's capital asset's policy approved by the Board does not sufficiently provide for the tracking of assets as required by the charter. 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.

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.

After reviewing the list of assets proposed by the Academy as their Capital Assets, we determined that 73% of the assets included among the invoices paid by the Academy failed to meet the $1,000 threshold listed in the Charter, also the Academy failed to follow the procedures established in the Contract with the Ohio Department of Education for the purchasing of capital assets, thus these assets should not be included on the Capital Assets list.

We recommend that the Academy review their current capital assets policy and make it clearer as to what should be included and what should be disallowed in the future. Also it is recommended that the Academy review their financial plan and follow the steps included for the purchasing of capital assets.

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HAMILTON COUNTY MATHEMATICS AND SCIENCE
HAMILTON COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2004

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2003-001	Material Weakness - Lack of Prior Approval of Payments to Accountant in Excess of Contract Amount	Yes	
2003-002	Material Noncompliance/Reportable Condition – Purchasing. Academy did not comply with community school contract that states that purchase orders be issued.	No	Not corrected. Reissued as Finding 2004-001.
2003-003	Material Noncompliance – Board Committees. Board did not establish proper committees pursuant to community school contract.	No	Not corrected. Reissued as Finding 2004-002.
2003-004	Material Noncompliance – Medicare Withholdings. Academy did not withhold or remit Medicare Tax.	No	Not corrected. Reissued as management letter comment.
2003-005	Material Weakness – Board Oversight of Financial Statements. Board members do not review financial activity or statements.	No	Not corrected. Reissued as Finding 2004-003
2003-006	Material Weakness – Segregation of Duties. No documentation of Board approval of financial reports and only the Treasurer signs checks.	No	Not corrected. Reissued as part of Finding 2004-003.

Auditor of State
Betty Montgomery

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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
OCTOBER 13, 2005