

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

AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2006

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



Mary Taylor, CPA
Auditor of State

Board of Directors
Hamilton County Mathematics and Science Academy
2675 Civic Center Drive
Cincinnati, Ohio 45231

We have reviewed the *Report of Independent Accountants* of the Hamilton County Mathematics and Science Academy prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

December 29, 2008

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**HAMILTON COUNTY MATHEMATICS AND SCIENCE ACADEMY
HAMILTON COUNTY
Audit Report
For the Year Ending June 30, 2006**

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

REPORT OF INDEPENDENT ACCOUNTANTS

Hamilton County Mathematics and Science Academy
Hamilton County
2675 Civic Drive
Cincinnati, Ohio 45231

To the Board of Directors:

We have audited the accompanying basic financial statements of the Hamilton County Mathematics and Science Academy (the Academy) as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Hamilton County Mathematics and Science Academy as of June 30, 2006, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2 through 5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 10, 2008 on our consideration of the Academy'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 10, 2008

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Unaudited)**

The discussion and analysis of the Hamilton County Mathematics and Science Academy's financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2006. 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's 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 increased \$57,827 (from Table 1). The increase was due to the large increase in revenue, which outpaced the associated expenses. Revenues increased due to higher student enrollment.
- Total assets increased \$99,048 (from Table 1), which represents a 10 percent increase from 2005. The increase was due primarily to improvements to the building purchased in 2004 through First Financial Services, Inc. The mortgage matures in 2008 with a 9% interest rate compounding monthly.
- Liabilities increased \$41,221 (from Table 1), which represents a 4 percent increase from 2005.

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.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Unaudited)**

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 2006?" 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 2006 and fiscal year 2005:

(Table 1)

	2006	2005
Net Assets		
Assets		
Current Assets	\$ 35,146	\$ 27,998
Capital Assets, Net	1,103,507	1,014,137
Deposits	2,530	-
Total Assets	1,141,183	1,042,135
Liabilities		
Current Liabilities	231,425	185,270
Non-Current Liabilities	863,474	868,408
Total Liabilities	1,094,899	1,053,678
Net Assets		
Invested in Capital Assets	121,473	34,827
Unrestricted (Deficit)	(75,459)	(46,370)
Total Net Assets	\$ 46,284	\$ (11,543)

Total assets increased by \$99,048. This increase was primarily due building improvements. Equity in pooled cash and cash equivalents has increased by \$4,467 from 2005. Intergovernmental Receivables increased by \$2,681. This decrease was due to the timing of the receipt of some grants.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Unaudited)**

Table 2 shows the changes in net assets for fiscal year 2006 and fiscal year 2005, as well as a listing of revenues and expenses.

	<u>2006</u>	<u>2005</u>
Operating Revenues		
Foundation payments	\$ 1,604,646	\$ 1,057,888
State special education program	39,168	14,330
DPIA	-	128,152
Miscellaneous	-	4,498
Total Operating Revenues	<u>1,643,814</u>	<u>1,204,868</u>
Operating Expenses		
Salaries	888,940	594,314
Fringe Benefits	164,569	108,278
Purchased Services	420,546	270,974
Supplies and materials	197,226	190,072
Depreciation	39,307	28,359
Other	3,893	7,235
Total Operating Expenses	<u>1,714,481</u>	<u>1,199,232</u>
Operating (loss)	<u>(70,667)</u>	<u>5,636</u>
Non-Operating Revenue and Expense		
Federal & State Grants	218,914	116,460
Interest Expense	(90,420)	(72,814)
Total Non-Operating Revenues	<u>128,494</u>	<u>43,646</u>
Change in Net Assets	57,827	49,282
Net Assets Beginning of Year	<u>(11,543)</u>	<u>(60,825)</u>
Net Assets End of Year	<u>\$ 46,284</u>	<u>\$ (11,543)</u>

Net asset change from 2005 to 2006, was driven by the increase in Foundation Payments. This increase was due to an increase in the student population. Salaries increased proportionately with the increase in Foundation Payments. Non-Operating Revenue and Expenses increased due to the additions to Federal and State Grants.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Unaudited)**

Capital Assets

At the end of fiscal year 2006 the Academy had \$1,103,507 invested in Land, Building and Furniture and Equipment, which represented an increase of \$89,370 from 2005. Table 3 shows fiscal year 2006 and fiscal year 2005:

(Table 3)

**Capital Assets at June 30, 2006
(Net of Depreciation)**

	2006	2005
Land	\$ 25,000	\$ 25,000
Building and Building Improvements	1,037,831	966,175
Furniture, Fixtures, and Equipment	40,676	22,962
Total	\$1,103,507	\$ 1,014,137

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

Debt – Notes Payable

At June 30, 2006, the Academy had \$981,764 in debt outstanding, of which \$118,290 is due within one year. Table 4 summarizes outstanding notes.

	2006	2005
Debt due within one year	\$ 118,290	\$ 110,902
Debt due in more than one year	863,474	868,408
Total	\$ 981,764	\$ 979,310

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 2008 with a 9% interest rate compounded monthly.

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: Rochelle Shields, Fiscal Officer, at the Hamilton County Mathematics and Science Academy, 2675 Civic Center Drive, Cincinnati, Ohio 45231.

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

**STATEMENT OF NET ASSETS
AS OF JUNE 30, 2006**

	2006
Assets	
<u>Current Assets</u>	
Cash	\$ 8,248
Intergovernmental Receivable	26,898
Total Current Assets	35,146
<u>Non-Current Assets</u>	
Land	25,000
Depreciable Capital Assets (Net of Accumulated Depreciation)	1,078,507
Deposits	2,530
Total Non-Current Assets	1,106,037
Total Assets	\$ 1,141,183
 Liabilities	
<u>Current Liabilities</u>	
Account Payable	31,603
Payroll Liabilities	16,903
Accrued Interest	64,629
Non-Current Liabilities Due Within One Year	118,290
Total Current Liabilities	231,425
<u>Non-Current Liabilities</u>	
Capital Lease Due in More Than One Year	30,074
Mortgage Loan Due in More Than One Year	833,400
Total Non-Current Liabilities	863,474
Total Liabilities	1,094,899
 Net Assets	
Invested in Capital Assets, Net of Related Debt	121,743
Unrestricted (Deficit)	(75,459)
Total Net Assets	\$ 46,284

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, 2006**

	2006
Operating Revenues	
Foundation payments	\$ 1,604,646
State special education program	39,168
Total Operating Revenues	1,643,814
Operating Expenses	
Salaries	888,940
Fringe Benefits	164,569
Purchased Services	420,546
Supplies and materials	197,226
Depreciation	39,307
Other	3,893
Total Operating Expenses	1,714,481
Operating Income	(70,667)
Non-Operating Revenue and Expense	
Federal & State Grants	218,914
Interest Expense	(90,420)
Total Non-Operating Revenue and Expense	128,494
Change in Net Assets	57,827
Net Assets Beginning of Year	(11,543)
Net Assets End of Year	\$ 46,284

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, 2006**

	2006
Increase (Decreases) in Cash and Cash Equivalents:	
<u>Cash Flows from Operating Activities:</u>	
Cash Received from State	\$ 1,641,133
Cash Payments to Employees for Services	(880,155)
Cash Payments for Employee Benefits	(164,569)
Cash Payments to Suppliers for Goods and Services	(656,312)
Net Cash Used for Operating Activities	(59,903)
<u>Cash Flows from Noncapital Financing Activities:</u>	
Deposits	(2,530)
Grants Received	218,914
Net Cash from Noncapital Financing Activities	216,384
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Payments for Capital Acquisitions	(97,334)
Capital Lease Payments, Including Interest	(9,290)
Repayment of Mortgage and Notes, Including Interest	(45,390)
Net Cash from Capital and Related Financing Activities	(152,014)
Net decrease in cash and cash equivalents:	4,467
Cash and cash equivalents at beginning of year	3,781
Cash and cash equivalents at end of year	\$ 8,248
Reconciliation of Operating loss to Net Cash <u>Used for Operating Activities:</u>	
Operating Income (Loss)	\$ (70,667)
<u>Adjustments to Reconcile Operating Income (loss) to Net Cash Provided by Operating Activities:</u>	
Depreciation	39,307
Changes in Assets and Liabilities:	
(Increase) in Intergovernmental Receivable	(2,681)
(Decrease) in Accounts Payable	(34,647)
Increase in Accrued Wages & Benefits	8,785
Total Adjustments	10,764
Net cash used by operating activities	\$ (59,903)

Non-Cash Transactions: The Academy entered into a capital lease agreement for \$31,343 during 2006.

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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 address the needs of students in kindergarten through grade six. 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 Department 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. They were replaced by Educational Resource Consultants of Ohio Inc. as its sponsor in January 2006.

The Academy operates under the direction of a five-member Board of Directors (the Board). 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 Directors controls the Academy's one instructional/support facility staffed by 20 full-time teaching personnel who provided services to 245 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with the 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, Educational Resource Consultants of Ohio, Inc., does not prescribe a formal budgetary process for the Academy; therefore no budgetary information is presented in the financial statements.

The Academy is required by the Ohio Department of Education to submit an annual yearly budget and a five year forecast of the annual budget. The budgets are placed on the Ohio Department Web-Site for public view yearly.

E. Cash

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.

F. Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of one thousand dollars. On August 15, 2004 a building and land were purchased for \$975,000. 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.

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
Building	40 years
Building Improvements	15 years

G. 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Operation 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.

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 2006.

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.

3. DEPOSITS

At fiscal year end, the carrying amount of the Academy's deposits was \$8,248 and the bank balance was \$42,814. Of the bank balance, all was covered by federal depository insurance.

4. RECEIVABLES

The Academy had intergovernmental receivables in the amount of \$13,761 and \$13,137 due from SERS and STRS, respectively at June 30, 2006.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006:

	Balance 6/30/05	Additions	Deletions	Balance 6/30/06
Business-Type Activity				
Capital Assets Not Being Depreciated				
Land	\$ 25,000	\$ -	\$ -	\$ 25,000
Capital Assets Being Depreciated				
Building	990,949	-	-	990,949
Building Improvements	-	103,318	-	103,318
Furniture, Fixtures, and Equipment	26,942	25,359	-	52,301
Total Capital Assets Being Depreciated	1,017,891	128,677	-	1,146,568
Less Accumulated Depreciation:				
Building	24,774	24,774	-	49,548
Building Improvements	-	6,888	-	6,888
Furniture, Fixtures, and Equipment	3,980	7,645	-	11,625
Total Accumulated Depreciation	28,754	39,307	-	68,061
Total Capital Assets Being Depreciated, Net	989,137	89,370	-	1,078,507
Business-Type Activity Capital Assets, Net	<u>\$1,014,137</u>	<u>\$ 89,370</u>	<u>\$ -</u>	<u>\$1,103,507</u>

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; error and omissions; injuries to employees; and natural disasters. For fiscal year 2006, 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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 administered by the School Employees Retirement Board. 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, by calling (614) 878-5853 or by visiting the SERS website at www.ohsers.org.

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 2006, 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, 2006, 2005, and 2004 was \$34,425, \$21,482 and \$18,065, respectively; 100 percent has been contributed for all fiscal years.

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, by calling (614) 227-4090, or by visiting the STRS Ohio web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

7. DEFINED BENEFIT PENSION PLANS (Continued)

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The 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 year ended June 30, 2006, 2005, and 2004 was \$71,211, \$44,316 and \$27,021, respectively; 100 percent has been contributed for all fiscal years.

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

8. POSTEMPLOYMENT BENEFITS (Continued)

STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Stabilization Fund. For the Academy, this amount equaled \$5,078 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, the balance in the Fund was \$3.5 billion. For the year ended June 30, 2006, net health care costs paid by STRS Ohio were \$282,743,000 and STRS Ohio had 119,184 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, 2006, employer contributions to fund health care benefits were 3.42 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 2006, the minimum pay was established at \$35,800. For the Academy, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$5,263.

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, 2006 (the latest information available), were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. The number of participants eligible to receive benefits at June 30, 2006 was 59,492.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

9. SUBSEQUENT EVENT

On August 15, 2004 a building and land at 7601 Harrison Avenue, Cincinnati, Ohio were purchased for \$1,000,000. The contract required payments of \$8,772 including interest at 9% with a balloon payment due June 2008. The Academy moved from this building in 2007 and sold it and the land in 2008. In August 2007 the Academy entered into a lease agreement for another building located at 2675 Civic Drive, Cincinnati, Ohio. The new lease required payments of \$7,266 per month through February 2009 with an option to purchase the facility for \$1,800,000 anytime during the term of the lease.

10. 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 an option to purchase the equipment. Payments are \$277 per month with interest at 6%.

During the fiscal year 2006, the Academy entered into a 48 month lease agreement with First Federal Leasing for the acquisition of additional playground equipment. The terms of the Agreement provide options to purchase the equipment. Payments are \$995 per month with interest at 6%.

These leases meet 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 following is a schedule of the future minimum lease payments.

<u>Year Ending</u>	<u>Amount</u>
June 30, 2007	\$15,264
June 30, 2008	14,433
June 30, 2009	11,940
June 30, 2010	<u>5,967</u>
Total minimum lease payments	47,604
Less: Amount representing imputed interest cost	<u>(4,504)</u>
Present value of minimum lease payments	<u>\$43,100</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

11. NON-CURRENT LIABILITIES

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

<u>Obligations</u>	Principal Outstanding 6/30/05	Additions	Principal Payments	Principal Outstanding 6/30/06	Amounts Due in One Year	Amounts Due in More Than One Year
Capital Lease – Equipment	\$17,817	\$24,530	\$4,756	\$37,591	\$9,949	\$27,642
Capital Lease – Copier	1,594	6,813	2,898	5,509	3,077	2,432
Land Contract	<u>959,899</u>	<u>-</u>	<u>21,235</u>	<u>938,664</u>	<u>105,264</u>	<u>833,400</u>
Total	<u>\$979,310</u>	<u>\$31,343</u>	<u>\$28,889</u>	<u>\$981,764</u>	<u>\$118,290</u>	<u>\$863,474</u>

12. 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

13. 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, 2006.

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. The Academy does not anticipate any material adjustments to state funding for fiscal year 2006 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 constitution 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 the 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 on November 29, 2005. On October 25, 2006, the Ohio Supreme Court ruled that the Community Schools are constitutional.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

14. PURCHASED SERVICES

For the year ended June 30, 2006, the purchased service expenses were comprised of the following:

Professional & Technical	\$ 100,033
Student Testing & Evaluation	383
Staff Development	217
Management Services	59,600
Data Processing Services	23,763
Legal Services	8,797
Mileage & Travel reimbursement	316
Communications	6,218
Postage & Printing	4,840
Pupil Transportation	11,374
Security Services	2,499
Trash Removal	3,566
Repair & Maintenance	33,475
Property Taxes	44,016
Liability Insurance	17,292
Pest Control	1,763
Gas & Electricity	39,202
Water & Sewer	2,492
Sponsorship Fees	19,405
Miscellaneous	41,296
Total Purchased Services	<u>\$ 420,546</u>

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

**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 Math & Science Academy
Hamilton County
2675 Civic Drive
Cincinnati, Ohio 45231

To the Board of Directors:

We have audited the financial statements of the Hamilton County Mathematics and Science Academy (the Academy) as of and for the year ended June 30, 2006 and have issued a report thereon dated November 10, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Controls Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Academy's financial statements that is more than inconsequential will not be prevented or detected by the Academy's internal control. We consider the deficiencies described in the accompanying schedule of findings as items 2006-HCMSA-01 through 2006-HCMSA-03 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Academy's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiencies described above 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings as 2006-HCMSA-03.

The Academy's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Academy's responses and, accordingly, we express no opinion on them.

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 10, 2008

HAMILTON COUNTY MATHEMATICS AND SCIENCE ACADEMY
HAMILTON COUNTY
SCHEDULE OF FINDINGS
JUNE 30, 2006

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

Finding Number: 2006-HCMSA-01

Material Weakness- Purchasing/Accounts Payable and Payroll Disbursements

The Academy did not implement adequate internal control procedures related to purchasing /accounts payable and payroll disbursements. We noted the following deficiencies in internal control:

- Most invoices did not indicate that they were reviewed and approved by appropriate levels of management.
- Purchase orders were not always used.
- Dual signatures were not required on checks. Vendor and payroll checks were signed with a stamp.
- Payments to employees for stipends, expenses, etc. were not always properly documented.

Although we did not identify payments which appeared inappropriate, without an adequate approval procedure in place, unauthorized payments to vendors and employees could take place without being identified by management or employees.

We recommend the Academy implement appropriate internal control procedures for purchasing/accounts payable and payroll disbursements.

Management Response:

All vendor and payroll checks were signed with the original signature. The Academy implemented a policy where by three signatures is required on all checks. The Academy implemented the use of purchase orders during 2006. Payroll disbursements for all employees have been contracted out whereby the payroll company issues employee payroll checks, pays and reports quarterly all federal, state, and local taxes, medicare, retirement accounts, and other pension plans. All are paid on time every month.

FINDING NUMBER 2006-HCMSA-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. The Academy's Treasurer acted as fiscal officer and provided accounting services and prepared 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.

HAMILTON COUNTY MATHEMATICS AND SCIENCE ACADEMY
HAMILTON COUNTY
SCHEDULE OF FINDINGS - Continued
JUNE 30, 2006

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

FINDING NUMBER 2006-HCMSA-02 – (Continued)

Management Response:

The Academy has always operated with a State Certified Treasurer. The treasurer served as the school's fiscal officer as required by law under the State of Ohio. Currently there is a board member signing off on all checks. All Board members receive monthly a financial report that is reviewed at regular scheduled board meetings. Bank reconciliations are reviewed every month to ensure that accurate accountability is taken place by school management.

FINDING NUMBER 2006-HCMSA-03

Non Compliance/Material Weakness – Records Retention

The Ohio Revised Code, the Ohio Administrative Code and 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. The failure to retain certain documents delayed the preparation of the financial statements and delayed the audit process.

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

Management Response:

All school records are kept on site in a designated room set aside for school financial records. The Academy has implemented policies to retrieve and account for school records as called for in preparation for retention and successfully completing school audits in a timely manner. The records room has been upgraded to convert documents to PDF files and store documents by vendor on an individual CD. The electronic files will be properly stored in order for review upon request.

**HAMILTON COUNTY MATHEMATICS AND SCIENCE ACADEMY
HAMILTON COUNTY, OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2005-HAM-01	Purchase orders not signed by Board	No	Repeated as Finding 2006-HCMSA-01
2005-HAM-02	Material weakness-Lack of Board oversight; lack of segregation of duties	No	Partially corrected; Repeated as Finding 2006-HCMSA-02
2005-HAM-03	Noncompliance/Reportable condition-capital assets policy not followed	Yes	Finding No Longer Valid-Policy changed
2005-HAM-04	Inadequate records	No	Repeated as Finding 2006-HCMSA-03



Mary Taylor, CPA
Auditor of State

HAMILTON COUNTY MATH 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
JANUARY 13, 2009**