



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

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2003



**Auditor of State
Betty Montgomery**

HAMILTON COUNTY MATHEMATICS AND SCIENCE ACADEMY
HAMILTON COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Directors:

We have audited the accompanying Balance Sheet of Hamilton County Mathematics and Science Academy, Hamilton County, Ohio (the Academy), as of June 30, 2003, and the related Statement of Revenues, Expenses, and Changes in Retained Earnings, and the Statement of Cash Flows for the year then ended. 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 financial statements referred to above present fairly, in all material respects, the financial position of Hamilton County Mathematics and Science Academy, Hamilton County, Ohio, as of June 30, 2003, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Auditor of State has billed the Academy for audit services provided fiscal year 2002. As of the date of this report, the Academy has been billed a total of \$23,297 for the 2002 audit, and has not paid any of this amount.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2004, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Betty Montgomery
Auditor of State

June 4, 2004

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

**BALANCE SHEET
AS OF JUNE 30, 2003**

Assets

Current Assets

Cash and Cash Equivalents	\$ 6,893
Intergovernmental Receivable	<u>23,515</u>
Total Current Assets	30,408

Non-Current Assetd

Fixed Assets	<u>6,929</u>
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Total Assets	\$ <u><u>37,337</u></u>
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Liabilities and Fund Equity

Current Liabilities

Accounts Payable	\$ 26,284
Capital Equipment Lease Payable	2,028
Accrued Interest Payable	50
Loans Payable	8,128
Intergovernmental Payable	<u>1,598</u>

Total Current Liabilities	38,088
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Long-Term Liabilities

Capital Equipment Lease Payable	<u>4,901</u>
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Total Liabilities	42,989
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Fund Equity

Accumulated Deficit	<u>(5,652)</u>
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Total Fund Equity	<u>(5,652)</u>
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Total Liabilities and Fund Equity	\$ <u><u>37,337</u></u>
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The accompanying 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
ACCUMULATED DEFICIT
FOR THE YEAR ENDED JUNE 30, 2003**

Operating Revenues

State Foundation Payments	\$ 435,334
Disadvantaged Pupil Impact Aid	70,905
Charges for Services	<u>7,926</u>
Total Operating Revenues	<u>514,165</u>

Operating Expenses

Salaries	392,092
Fringe Benefits	83,585
Purchased Services	75,028
Material and Supplies	71,980
Other Operating Expense	3,211
Rent Expense	<u>98,006</u>
Total Operating Expenses	<u>723,902</u>

Operating Loss (209,737)

Non-Operating Revenues (Expenses)

Donations and Contributions	7,091
Federal Grants	200,892
Other State Grants	22,746
Interest Expense	<u>(1,083)</u>
Total Non-Operating Revenues (Expenses)	<u>229,646</u>

Net Income 19,909

Accumulated Deficit at Beginning of Year (25,561)

Accumulated Deficit at End of Year \$ (5,652)

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

HAMILTON COUNTY MATHEMATICS AND SCIENCE ACADEMY
HAMILTON COUNTY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2003

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash Received from State of Ohio	\$ 500,310
Cash Payments to Employees for Services and Benefits	(476,982)
Cash Payments to Suppliers for Goods and Services	(252,730)
Other Operating Receipts	7,926

Net Cash Used for Operating Activities (221,476)

Cash Flows from Noncapital Financing Activities

Grants and Contributions	7,091
Proceeds of Loan	31,000
Principal Payments	(37,872)
Interest Payments	(1,083)
State and Federal Grants Received	224,817

Net Cash Provided by Noncapital Financing Activities 223,953

Cash Flows from Capital and Related Financing Activities:
Acquisition of Capital Assets

Capital Lease Payments (2,591)

Net Increase in Cash and Cash Equivalents (114)
Cash and Cash Equivalents at Beginning of Year 7,007

Cash and Cash Equivalents at End of Year \$ 6,893

Reconciliation of Operating Loss to Net Cash Provided
for Operating Activities

Operating Loss \$ (209,737)

Adjustments To Reconcile Operating Loss to Net Cash Used for
Operating Activities

Depreciation	
Changes in Assets and Liabilities:	
(Increase) in Intergovernmental Receivable	(5,929)
(Decrease) in Accounts Payable	(4,505)
(Decrease) in Intergovernmental Payable	(1,305)

Total Adjustments (11,739)

Net Cash Used for Operating Activities \$ (221,476)

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

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

Hamilton County Mathematics and Science Academy, Hamilton County, Ohio (the Academy), is a nonprofit corporation established pursuant to Ohio Revised 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. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy.

The Academy was approved for operation under contract with the Ohio State Board of Education (the Sponsor) for a period of five years commencing July 1, 2001. 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.

The Academy operates under a self-appointing four-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 then 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 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 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

Enterprise Accounting

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

B. Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

C. Budgetary Process

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the Academy's contract with 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 budgeted income and expenses 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 Directors.

D. Fixed Assets

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 over the one year lease.

E. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid (DPIA) Program, and the State Special Education Program. Revenues received from the State Foundation Program and the DPIA Program are recognized as operating revenues in the accounting period in which all eligibility requirements have been met. Revenues received from the State Special Education Program are recognized as nonoperating revenues in the accounting period in which all eligibility requirements have been met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when used is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Academy also participates in the Federal Charter Academy Grant Program through the Ohio Department of Education. Under this program, the Academy was awarded and received \$150,000 to offset startup costs of the Academy. Revenue received from this program is recognized as non-operating Federal Grants revenue in the accompanying financial statements.

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 to the State, upon which state foundation funding is calculated. The Academy is expected to receive \$1,561 from this review and it is recorded in the accompanying financial statements as part of State Foundation Payments and Intergovernmental Receivable.

3. CASH

At June 30, 2003, the Academy had a carrying value of deposits of \$6,893 which is reported as Cash and Cash Equivalents in the accompanying financial statements. The bank balance of the Academy's deposits was \$6,893 which is covered through federal depository insurance (FDIC).

4. RECEIVABLES

Intergovernmental receivables at June 30, 2003, consisted of federal funds and additional amounts due from the State for fiscal year 2003 based on Ohio Department of Education reviews of enrollment criteria and full-time equivalency calculations. All Intergovernmental Receivables are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

5. RISK MANAGEMENT

A. Property and Liability

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2003, 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 the property insurance.

B. Workers' Compensation

The Academy paid the State Worker's Compensation System (the 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. At June 30, 2003 the Academy has made all required contributions to the System.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

6. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Academy contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic 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 state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Plan members are required to contribute 9 percent of their annual covered salary and the Academy is required to contribute 14 percent; for fiscal year 2003, 8.17 percent was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by SERS's Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003 and June 30, 2002 was \$20,516 and \$14,556, respectively. \$753 of the Intergovernmental Payable is the amount that the Academy owes for SERS, which includes both the employee and employer portions. This amount was paid in July 2003.

B. State Teachers Retirement System

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% 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.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

6. DEFINED BENEFIT PENSION PLANS (Continued)

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% 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 for the fiscal years ended June 30, 2003 and 2002 were \$28,287 and \$16,100 respectively. \$845 of the Intergovernmental Payable is the amount that the Academy owes for STRS, which includes both the employee and employer portions. The amount was paid in July 2003.

7. POST EMPLOYMENT BENEFITS

The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), 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 funded on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. The STRS Board currently allocates employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the Academy, this amount equaled \$5,175 during the 2003 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001 (the latest information available) net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 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.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

7. POST EMPLOYMENT BENEFITS (Continued)

For this fiscal year, 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 2003, the minimum pay has been established at \$14,500. The Academy was not levied a surcharge for fiscal year 2003.

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 \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefit of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

8. OTHER EMPLOYEE BENEFITS

There were no medical, dental, or life insurance benefits provided to the employees during the fiscal year. The Academy is currently working to obtain insurance benefits for the 2004 school year.

9. STATE SCHOOL FUNDING DECISION

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

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

10. 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 general fund or other applicable funds. 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, 2003.

B. Litigation

A suit was filed in Franklin County Commons Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the State Constitution and State laws. The effect of this suit, if any, on the Academy is not presently determinable.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

11. OPERATING LEASE

The Academy leases a building from the Christ Memorial A.O.H. Church of God. The lease payments are \$8,167 a month. The Academy paid \$ 98,006 during fiscal year 2003, which includes the monthly lease payments and the security deposit.

12. CAPITAL LEASE

During fiscal year 2003, the Academy entered into a 60 month lease agreement with De Lage Landen for \$169 per month. As of June 30, 2003, \$6,929 was outstanding.

The following is a summary of the District's future annual lease payments. Interest is not material.

<u>Ending June 30</u>	<u>Principal</u>
2004	2,028
2005	2,028
2006	2,028
2007	845
	<hr/>
	<u>\$6,929</u>

13. 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.

14. DEBT

During fiscal year 2002, the Academy entered into a commercial loan with Fifth Third Bank at 5.75 percent interest. The balance of the loan was \$15,000 at July 1, 2002. During the 2003 fiscal year the Academy increased the loan amount by \$31,000, and paid \$37,872 in loan principal. As of June 30, 2003, the Academy owed \$8,128 on this loan.

15. FEDERAL EXEMPT STATUS

The Academy has obtained their 501(c)(3) tax exempt status. Management is not aware of any action or series of events that have occurred that might adversely affect the school's tax exempt status.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

16. PURCHASED SERVICES

For the year ended June 30, 2003, purchased service expenses were comprised of the following:

Food Service	\$ 37,928
Payroll Processing	2,737
Legal Expenses	5,545
Accounting & Data Processing	<u>28,818</u>
Total Purchase Services	<u>\$75,028</u>

17. MANAGEMENT'S PLAN REGARDING ACCUMULATED DEFICIT

The Academy accumulated a deficit of \$ 5,652 for the year ended June 30, 2003. Management plans to monitor and control expenses as they attempt to eliminate the operating deficit.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS

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

To the Board of Directors:

We have audited the financial statements of Hamilton County Mathematics and Science Academy, Hamilton County, Ohio (the Academy), as of and for the year ended June 30, 2003, and have issued our report thereon dated June 4, 2004, wherein we noted the Academy has not paid audit fees we charged for our audit of the 2002 financial statements. 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.

Compliance

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 and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2003-002 through 2003-004.

We also noted an immaterial instance of noncompliance that we have reported to the management of the Academy in a separate letter dated June 4, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance 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 with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2003-001, 2003-002, 2003-005 and 2003-006.

A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above we consider 2003-001, 2003-005 and 2003-006 to be material weaknesses.

We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Academy in a separate letter dated June 4, 2004.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

June 4, 2004

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

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2003**

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

FINDING NUMBER 2003-001

Material Weakness – Lack of Prior Approval for Payments to Accountant in Excess of Contract Amount

Management is responsible for establishing and maintaining effective internal control to help ensure that resources are safeguarded. One aspect of control activity is *segregation of duties* which is described in the AICPA Codification of Statements on Auditing Standards, section 319.09:

“Assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets is intended to reduce the opportunities to allow any person to be in a position to both perpetuate and conceal errors or irregularities in the normal course of his or her duties.”

During the 2003 fiscal year, the accountant for the Hamilton County Mathematics and Science Academy (Academy) issued checks to his company in excess of the contract amount for his services. These checks were not formally authorized by the Board until March 2004. The Academy entered into contract with Jenkins & Co, whereby Jenkins & Co. provided services as the school accountant from July 1, 2002 through June 30, 2003 for \$20,000 for the period. The contract also stipulated that Jenkins & Co. “shall be entitled to reimbursement for Board approved reasonable and substantiated expenses incurred on behalf of business conducted for Hamilton County Mathematics and Science Academy.” During the period from July 1, 2002 through June 30, 2003, Mr. Herbert Jenkins issued checks to himself totaling \$7,773 in excess of the contract amount of \$20,000.

The additional expenses of \$7,773 were not issued in accordance with the Academy’s contract with Jenkins & Co. because these expenses were not Board approved. Also, some of the additional expenses appear to be for services typically performed by an accountant as part of the regular and usual duties (providing additional information to auditors, filing tax forms, writing letters to auditors).

A description of the additional expenses and lack of Board approval follows:

- Reimbursement - Adding internet service to the Jenkins & Co. office computer (\$108 per month average for a total of \$1,329). No Board approval was documented and an unsigned purchase order was used;
- Additional Charges – The Jenkins & Co. invoice indicated that the Board was dissatisfied with the 2002 draft audit, and that Mr. Jenkins conducted his own “audit” and follow-up. (\$2,700). No Board approval was documented and no purchase order was used;
- Compliance Report – The Jenkins & Co. invoice indicates that he performed his own “audit” related to compliance issues for the 2002 audit. (\$2,500). No Board approval was documented and no purchase order was used;
- Filing the Form 990 tax return for the school (\$300);
- Conference reimbursement plus mileage and hotel, including 8 phone calls and room service, a purchase order was used, but it is not dated and has only one Board member's signature (2 Board member signatures are required per the Academy’s Financial Plan, Exhibit 2), and no date of travel (\$344);

**FINDING NUMBER 2003-001
(Continued)**

- Invoice for additional work to review audit hours and write letter to Loren Crisp, Chief Auditor (\$600).

The Board did not authorize these additional expenses until March 2004, when they executed an affidavit.

The lack of segregation of duties related to the authorization of payment, recording of the transaction and the custody of the assets could result in unauthorized payments, an undetected errors and irregularities.

We recommend that the contract with the accountant include a detailed list of services to be rendered for the compensation. If the agreement is to contain any provision for additional expenses, a total amount or "sum not to exceed" amount should be included. The Board should then review requests for reimbursement in excess of accounting services contract to verify that the additional expenses are related to services outside the scope of the contract.

FINDING NUMBER 2003-002

Material 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, twenty-two percent of purchase orders were not numbered or dated, 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 2003-003

Material Noncompliance – Board Committees

The Academy did not comply with the Governance and Administration Plan, Exhibit 3, Board Committees, of the contract with the Ohio Department of Education. The Board Committees section states that the Academy will have the following standing committees: Executive Committee, Finance and Audit Committee, and Education Committee. The Academy did not establish any of the required standing committees.

FINDING NUMBER 2003-004

Material Noncompliance – 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. We will refer this matter to the Internal Revenue Service.

FINDING NUMBER 2003-005

Material Weakness – Board Oversight of Financial Statements

The Academy does not have any 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 any Board members reviewed financial activity or financial statements prepared by the accounting firm. Due to lack of review and oversight by the Board, the HCMSA has not presented financial statements that properly reflect the activities and balances of the Academy.

We recommend that the Academy's Board members gain the knowledge to review financial activity and financial statements, or establish a finance or audit committee (see finding 2003-004) responsible for this review.

FINDING NUMBER 2003-006

Material Weakness – Segregation of Duties

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 the detection of management. It is therefore 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:

- For 5 of 14 Board meetings, there was no documentation of the Board approving the monthly financial reports.
- For 57% of expenditures tested, only the Accountant/Treasurer signed checks.

To maintain continuing accountability and to strengthen internal accounting controls, officials 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.

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**HAMILTON COUNTY MATH AND SCIENCE ACADEMY
HAMILTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2003**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2002-10431-001	Finding for Recovery against H. Jenkins, G. Mangrum, L. Brown, L. McIntyre, and D. De Vaughn for petty cash expenditures	No	The Academy no longer has a petty cash , however Findings for Recovery have not been repaid.
2002-10431-002	Noncompliance Workers Comp Insurance Fund. Academy did not have an account established.	Yes	.
2002-10431-003	Noncompliance Commercial Loan. Academy did not retire liability at year end.	Yes	No longer valid – law changed.
2002-10431-004	Noncompliance Lease Agreement. Academy did not have a cancellation clause.	No	Partially corrected. The Academy did make all of the necessary payments for current audit period, however, the copier lease still does not have a cancellation clause. This matter is included in the Management Letter.
2002-10431-005	Noncompliance Record Retention. The Academy was missing or had misfiled many documents.	Yes	
2002-10431-006	Noncompliance Payroll Withholdings. Academy was delinquent in SERS payments.	Yes	

Hamilton County Math and Science Academy
Hamilton County
Schedule of Prior Audit Findings
Page 2

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2002-10431-007	Noncompliance Board Minutes. Meetings open to public per ORC. 121.22	Yes	
2002-10431-008	Noncompliance Bonding of Treasurer. Treasurer not bonded.	Yes	
2002-10431-009	Noncompliance Background Checks. The Academy did not properly follow requirements of BCI Checks upon hiring personnel.	Yes	
2002-10431-010	Noncompliance Payroll TPA – Failure to monitor Third Party Administrator.	Yes	
2002-10431-011	Material Weakness/ Reportable Condition, the Academy did not place proper internal controls over the payroll process	Yes	

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2002-10431-012	Material Weakness/ Reportable Cond., Academy did not place proper internal controls over the lunch room receipt cycle.	No	Partially corrected. Academy has placed controls over lunchroom operations. However, the Academy is not depositing lunchroom receipts as required by Ohio law. This matter is addressed in the 2003 management letter.
2002-10431-013	Material Weakness/ Reportable Cond., the Academy did not place proper internal controls over expenditures.	Yes	



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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
JULY 20, 2004**