



**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  
Cincinnati, OH 45231

To the Members of 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, 2002, and the related Statement of Revenues, Expenses, and Changes in Accumulated Deficit, 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 (the Academy), as of June 30, 2002, 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 Academy suffered a net loss for the year ended June 30, 2002, and accumulated a deficit of \$25,561 in its first year of operation. Note 17 describes management's intended plans regarding these financial difficulties.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2003 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 black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

May 8, 2003

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

**BALANCE SHEET  
AS OF JUNE 30, 2002**

**Assets**

Current Assets

Cash and Cash Equivalents	\$ 7,007
Intergovernmental Receivable	17,586
	<hr/>

Total Current Assets 24,593

Non-Current Assets

Fixed Assets	9,526
	<hr/>

Total Assets \$ 34,119

**Liabilities and Fund Equity**

Current Liabilities

Accounts Payable	\$ 30,789
Capital Equipment Lease Payable	2,597
Loans Payable	15,000
Intergovernmental Payable	2,903
Deferred Revenue	1,462
	<hr/>

Total Current Liabilities 52,751

Long-Term Liabilities

Capital Equipment Lease Payable	6,929
	<hr/>

Total Liabilities 59,680

Fund Equity

Accumulated Deficit (25,561)

Total Fund Equity (25,561)

Total Liabilities and Fund Equity \$ 34,119

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, 2002**

**Operating Revenues**

State Foundation Payments	\$ 158,353
Disadvantaged Pupil Impact Aid	71,146
Charges For Services	<u>2,439</u>
Total Operating Revenues	<u>231,938</u>

**Operating Expenses**

Salaries	239,700
Fringe Benefits	43,263
Purchased Services	160,324
Materials and Supplies	119,697
Other Operating Expenses	<u>19,006</u>
Total Operating Expenses	<u>581,990</u>
Operating Loss	<u>(350,052)</u>

**Non-Operating Revenues**

Donations and Contributions	28,405
State Special Education	5,269
Federal Grants	233,142
Other State Grants	<u>57,675</u>
Total Non-Operating Revenues	<u>324,491</u>
Net Loss	(25,561)
Retained Earnings at Beginning of Year	<u>-</u>
Accumulated Deficit at End of Year	<u><u>\$ (25,561)</u></u>

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, 2002**

**Increase (Decrease) in Cash and Cash Equivalent:**

**Cash Flows from Operating Activities**

Cash Received from State of Ohio	\$ 229,499
Cash Payments to Employees for Services and Benefits	(282,963)
Cash Payments to Suppliers for Goods and Services	(281,459)
Other Operating Revenue	<u>2,439</u>
Net Cash Used for Operating Activities	<u>(332,484)</u>

**Cash Flows from Noncapital Financing Activities:**

Grants and Contributions	28,405
Proceeds from Debt	35,000
Debt Payments	(20,000)
State and Federal Grants Received	<u>296,086</u>
Net Cash Provided by Noncapital Financing Activities	<u>339,491</u>
Net Increase in Cash and Cash Equivalents	7,007
Cash and Cash Equivalents at Beginning of Year	<u>-</u>
Cash and Cash Equivalents at End of Year	<u>\$ 7,007</u>

**Reconciliation of Operating Loss to Net Cash Provided  
for Operating Activities**

Operating Loss	\$ (350,052)
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**Adjustments To Reconcile Operating Loss to Net Cash Used for  
Operating Activities**

Changes in Assets and Liabilities:	
(Increase) in Intergovernmental Receivable	(17,586)
Increase in Accounts Payable	30,789
Increase in Intergovernmental Payable	2,903
Increase in Deferred Revenue	<u>1,462</u>
Total Adjustments	<u>17,568</u>
Net Cash Used for Operating Activities	<u>\$ (332,484)</u>

Noncash Capital Activities:

During the year \$9,526 of capital assets were acquired through a lease contract.

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, 2002**

**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 seven-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, 2002  
(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, 2002  
(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 \$200,000 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 Academy was also awarded and received \$50,000 from the State Start-Up Grant to offset startup costs of the Academy. Revenue received from this grant is recognized as non-operating 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 \$3,672 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, 2002, the Academy had a carrying value of deposits of \$7,007 which is reported as Cash and Cash Equivalents in the accompanying financial statements. The bank balance of the Academy's deposits was \$7,916 which is covered through federal depository insurance (FDIC).

**4. RECEIVABLES**

Intergovernmental receivables at June 30, 2002, consisted of federal funds and additional amounts due from the State for fiscal year 2002 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 2002, the Academy contracted with Nationwide Insurance for property and general liability insurance. There is a \$1,000 deductible for the general liability and a \$500 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. Initially the Academy did not pay into the System and had to pay medical payments for an employee's injury. The System's policy was opened on December 17, 2001 and at June 30, 2002 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, 2002  
(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 2002, 4.2 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 contribution for pension obligations to SERS for the fiscal year ended June 30, 2002 was \$14,556. \$2,718 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 August 2002.

**B. State Teachers Retirement System**

The Academy contributes to the State Teachers Retirement System of Ohio (STRS), a cost sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and the Academy is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Academy's required contribution for pension obligations to STRS for the fiscal years ended June 30, 2002 was \$16,100. The School paid 100% of the STRS required contributions for fiscal year 2002.

**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.

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**7. POST EMPLOYMENT BENEFITS (Continued)**

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 2002 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.

For this fiscal year, employer contributions to fund health care benefits were 9.8 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 2001, the minimum pay has been established at \$12,400. The Academy was not levied a surcharge for fiscal year 2002 as of March 5, 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, 2001 (the latest information available), were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefit of \$315.7 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 2003 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.

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**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, 2002.

**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.

**11. OPERATING LEASE**

The Academy leases a building from the Christ Memorial A.O.H. Church of God. The lease payments are \$4,583 a month and a \$4,583 security deposit was required. The Academy paid \$ 59,583 during fiscal year 2002, which includes the monthly lease payments and the security deposit.

**12. CAPITAL LEASE**

During fiscal year 2002, the Academy entered into a 60 month lease agreement with De Lage Landen for \$169 per month. The Academy did not make all required payments on this lease during the fiscal year. The current liability on the balance sheet includes \$569 for delinquent lease payments as of June 30, 2002. As of June 30, 2002, \$9,526 was outstanding.

The following is a summary of the District's future annual lease payments:

<u>Ending June 30</u>	<u>Principal</u>
2003	2,597
2004	2,028
2005	2,028
2006	2,028
2007	<u>845</u>
	<u>9,526</u>

The lease agreement did not contain a fiscal funding or cancellation clause as required by Ohio law.

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**13. RELATED PARTY TRANSACTIONS**

The Academy obtained a \$30,000 commercial loan with Fifth Third Bank. The chairperson of the Board put up \$90,000 of her personal stock as collateral for the commercial loan.

The Treasurer of the Academy is on the Board of Trustees and the Academy contracts with his company for accounting services. The Academy paid the Treasurer's company \$14,974 during fiscal year 2002.

**14. DEBT**

On July 1, 2001 the Academy took out a loan for \$5,000 from the Mt. Zion Federal Credit Union. It was used for the funding of the Academy until the Federal Start-Up Grant money was received. The promissory note was for 24 months with an interest rate of 8%. This loan was paid off on July 29, 2001.

On July 3, 2001 the Academy took out a second loan for \$5,000 from the Mt. Zion Federal Credit Union. It was used for the funding of the Academy until the Federal Start-Up Grant money was received. The promissory note was for 24 months with an interest rate of 8%. This loan was paid off on July 29, 2001.

During fiscal year 2002, the Academy entered into a commercial loan with Fifth Third Bank at 5.75 percent interest.

<u>Debt</u>	<u>Balance as of 7/1/01</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance as of 6/30/02</u>
7/1/01 Loan	\$ 5,000	\$ 0	\$ 5,000	\$ 0
7/3/01 Loan	0	\$ 5,000	\$ 5,000	\$ 0
Commercial Loan	0	\$25,000	\$10,000	\$15,000
Capital Lease	<u>0</u>	<u>\$10,202</u>	<u>\$676</u>	<u>\$9,526</u>
Total	<u>\$5,000</u>	<u>\$40,202</u>	<u>\$20,676</u>	<u>\$24,526</u>

The commercial loan is not evidenced by notes. The commercial loan was not retired by the end of the fiscal year as required by Ohio law.

**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, 2002  
(Continued)**

**16. PURCHASED SERVICES**

For the year ended June 30, 2002, purchased service expenses were comprised of the following:

Professional Development	\$ 2,296
Accounting & Business Services	35,041
Educational Contract Services	1,872
Computer Services	5,475
Speech Services	1,348
EMIS Services	500
Advertising	1,977
Legal Services	3,363
Postage and Delivery	485
Recruitment	8,797
Bus Transportation	340
Building Operations	20,613
Rent	59,583
Utilities	10,212
Communications	3,276
Other Purchased Services	<u>5,146</u>
Total Purchased Services	<u>\$ 160,324</u>

**17. MANAGEMENT'S PLAN REGARDING ACCUMULATED DEFICIT**

The Academy accumulated a deficit of \$25,561 for the year ended June 30, 2002. Management plans to monitor and control expenses as they attempt to eliminate the operating deficit.

As of February 28, 2003, the Academy showed an unaudited year-to-date increase in cash balances of approximately \$33,000, and an unaudited net cash-basis loss for the month of February 2003 of approximately \$32,000.



## **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  
Cincinnati, Ohio 45231

To the Members of 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 fiscal year ended June 30, 2002, and have issued our report thereon dated March 5, 2003, wherein we noted the Academy accumulated a loss of \$25,561 in its first year of operations. 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*. They are noted in the following schedule as items 2002-10431-001 through 2002-10431-009.

We also noted certain immaterial instances of noncompliance that we have reported to the management of the Academy in a separate letter dated March 5, 2003.

#### **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 consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2002-10431-010 through 2002-10431-013.

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, we believe all the reportable conditions described above are 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 the management of the Academy in a separate letter dated May 8, 2003.

This report is intended for the information and use of the finance and audit committee, management, the Board, and federal awarding agencies and pass-through entities, 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

May 8, 2003

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

**SCHEDULE OF FINDINGS  
JUNE 30, 2002**

**FINDING NUMBER 2002-10431-001**

**Finding for Recovery**

The Academy engaged in a pattern of issuing checks to either “cash”, “petty cash”, or Academy employees. The Academy retained no documentation to either identify specific items purchased or individuals making the purchases.

- Check 108 written to cash in the amount of \$200, to reimburse out-of-pocket expenses. There were no receipts for \$104 of the total reimbursement. The check was signed by Grace Manggrum and Herbert Jenkins and endorsed by Linda Brown.
- Check 109 written to Linda McIntyre in the amount of \$100, to reimburse out-of-pocket expenses. There were no receipts. The check was signed by Grace Manggrum and Herbert Jenkins and endorsed by Linda McIntyre.
- Check 128 written to Petty Cash in the amount of \$200, to purchase supplies. There were no receipts to show supplies were purchased with these monies. The check was signed by Grace Manggrum and Herbert Jenkins and endorsed by Linda Brown.
- Check 202 written to Petty Cash in the amount of \$400, to purchase supplies. There were no receipts for \$253 of the total reimbursement to show supplies were actually purchased. The check was signed by Herbert Jenkins and Grace Manggrum and was endorsed by Linda Brown.
- Check 212 written to Petty Cash in the amount of \$373, to purchase supplies. There were no receipts for \$63 of the total reimbursement to show supplies were actually purchased. This check was signed by Herbert Jenkins and Grace Manggrum and was endorsed by Linda Brown.
- Check 288 written to David DeVaughn in the amount of \$300 for an advance to purchase supplies. There were no receipts to show supplies were actually purchased. This check was signed by Herbert Jenkins and Grace Manggrum and was endorsed by Linda Brown and David DeVaughn.
- Check 296 written to Petty Cash in the amount of \$80 to purchase supplies. There were no receipts to show supplies were actually purchased. This check was signed by Herbert Jenkins and was endorsed by David De Vaughn.

On January 21, 2003 the Academy provided \$621.28 in receipts. However, there was no correlation between the dates, amounts and purpose of reimbursement related to the checks issued by the Academy and the dates, vendors and amounts related to the receipts provided by the Academy.

**FINDING NUMBER 2002-10431-001  
(Continued)**

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code, Section 117.28, a Finding for Recovery for illegal expenditures, is hereby issued against Herbert Jenkins, Grace Manggrum, and Linda Brown in the amount of six hundred twenty dollars (\$620); Herbert Jenkins, Grace Manggrum, and Linda McIntyre in the amount of one hundred dollars (\$100); Herbert Jenkins, Grace Manggrum, David DeVaughn, and Linda Brown in the amount of three hundred dollars (\$300); and Herbert Jenkins and Linda Brown in the amount of eighty dollars (\$80) in favor of Hamilton County Mathematics and Science Academy in the total amount of one thousand one hundred (\$1,100).

The Academy indicated that they established a policy discontinuing the use of petty cash on March 4, 2002.

**FINDING NUMBER 2002-10431-002**

**Noncompliance – Workers Compensation Insurance Fund**

Ohio Rev. Code, Section 4123.01(B), requires that every person, firm, and private corporation, including any public service corporation, that (i) has in service one or more employees regularly in the same business or in or about the same establishment under any contract of hire, express or implied, oral or written, or (ii) is bound by such contract of hire or by any other written contract, to pay into the insurance fund the premiums provided by this chapter.

The Academy did not open an account until December 17, 2001. Also, the Academy's coverage lapsed during March 2002, due to delinquent payments. As a result, on January 12, 2002 the Board of Directors approved payment of \$1,450 in medical expenses for one employee as a result of a work-related injury. As of June 30, 2002 the Academy has made all required contributions to the System.

We recommend that the Academy continue to pay into the Bureau of Workers Compensation Insurance Fund.

**FINDING NUMBER 2002-10431-003**

**Noncompliance - Commercial Loan**

Ohio Revised Code Section 3314.08 (J), states that a community school may borrow money to pay any necessary and actual expenses of the school in anticipation of the receipt of any portion of the payments to be received by the school pursuant to division (D) of this section. The school may issue notes to evidence such borrowing to mature no later than the end of the fiscal year in which such money is borrowed. As of April 8, 2003 the Ohio Revised Code Section was changed to remove the restriction on the maturity; however, the proceeds of the notes must be used only for the purposes for which the anticipated receipts can be lawfully expended by the school.

The Academy borrowed \$15,000 through a commercial loan from Fifth Third Bank on June 26, 2002 and the liability was not retired before the end of the fiscal year.

**FINDING NUMBER 2002-10431-004**

**Noncompliance – Lease Agreement**

AOS Bulletin 2000-005, states that lease agreements which extend beyond the current fiscal year should contain a fiscal funding or cancellation clause. Such a clause permits the community school to terminate the agreement on an annual basis if funds are not appropriated to make required payments.

The Academy has a lease for a copier with DeLage Landen with payments through 2006. The lease agreement does not contain a fiscal funding or cancellation clause. Failure to include these type of clauses in lease agreements could result in the Academy not having the funds to pay the lease and not being able to terminate the agreement. The Academy did not make all required payments on the copier lease and the agreement is not cancelable.

We recommend the Academy review all lease agreements that extend beyond the end of the fiscal year in which they are issued to determine that they contain a fiscal funding or cancellation clause. The Academy should also include this clause in all future lease agreements.

**FINDING NUMBER 2002-10431-005**

**Noncompliance - Record Retention**

Ohio Rev. Code Section 149.351, provides that no public record shall be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commission provided for under Ohio Rev. Code Section 149.38 to 149.42.

The Academy was either missing or has misfiled many documents. For example, the Academy was unable to locate the following:

- Commercial loan agreement;
- Voided checks for ten expenditures;
- Cancelled checks for three expenditures;
- One teacher certification and five assistant teachers permits;
- State tax forms for 71% of employees;
- Contracts for 14% of employees;
- SERS or STRS forms for 19% of employees;
- Several sign-in/sign-out sheets;
- August 2001 attendance records;
- CN-7 reports (Auditor obtained from ODE)

We recommend that the Academy retain all source documents and organize them so that important records are secure, organized and accessible to management.

**FINDING NUMBER 2002-10431-005  
(Continued)**

On May 8, 2003 the Academy provided the following information:

- A copy of an application for a temporary license dated August 23, 2001 (related to the lack of teacher certification). The Academy provided no evidence that a permanent license was obtained.
- Copies of bank statements to show that the cancelled checks cleared the bank. Also, the Treasurer indicated on the bank statements which checks were voided. While the checks can be traced to the bank statements, proper authorization and endorsement of the checks can not be reviewed through this process.
- Copies of state tax forms that were completed on May 2, 2003 and May 5, 2003. These tax forms were completed by the same individual and the forms state that the signature of the employee is on file.
- Copies of missing sign-in/sign-out sheets with confirmation dated May 5, 2003 sent to the Principal from the Treasurer. The confirmation stated that the Principal was to "review the above items, make the correction and sign off".
- A copy of an application for SERS for an employee which was completed and signed on May 6, 2003.
- Copies of an unsigned work schedule and job description were provided for one employee.

**FINDING NUMBER 2002-10431-006**

**Noncompliance – Payroll Withholdings**

Ohio Rev. Code, Section 3309.47, states that each school employees' retirement system contributor shall contribute eight per cent of the contributor's compensation to the employees' savings fund. Ohio Rev. Code, Section 3309.49, requires each employer to pay to the school employees' retirement system an amount certified by the secretary that shall be a certain per cent of the earnable compensation of all employees.

The Academy was delinquent in paying its portions of SERS payments throughout the year. When timely payments are not made the Academy could incur unnecessary penalty fees, and employees may not receive appropriate retirement benefits. At June 30, 2002, the Academy owed \$2,718 to SERS for fiscal year 2002 payroll. This amount has been accrued in the financial statements and was paid in August of 2002.

We recommend that the Treasurer monitor payment deadlines and ascertain payments to SERS are paid by the due date.

**FINDING NUMBER 2002-10431-007**

**Noncompliance – Board Minutes**

Ohio Rev. Code, Section 121.22, states that all meetings of any public body are declared to be public meetings open to the public at all times. A member of a public body must be present in person at a meeting open to the public to be considered present or to vote and for determining whether a quorum is present. The minutes of a regular or special meeting of any such public body shall be promptly recorded and open to public inspection. The minutes need only reflect the general subject matter of discussions in executive sessions. Executive sessions may be held at a regular or special meeting for the sole purpose of the consideration of any of the following matters:

**FINDING NUMBER 2002-10431-007  
(Continued)**

- A. To consider the appointment, employment, dismissal, discipline, promotion, demotion, or compensation of a public employee or compensation of a public employee or official, or the investigation of charges or complaints against a public employee official, or regulated individual requests a public hearing. If a public body holds an executive session pursuant to division (G) (1) of this section, the motion and vote to hold that executive session shall state which one or more of the approved purposes listed in division (G) (1) of the section are the purposes for which the executive session is to be held, but need not include the name of any person to be considered at the meeting;
- B. To consider the purchase of property for public purposes, or for the sale of property at competitive bidding, if premature disclosure of information would give an unfair competitive or bargaining advantage to a person whose personal, private interest is adverse to the general public interest;
- C. Conferences with an attorney for the Academy concerning disputes involving the Academy that are the subject of pending or imminent court action;
- D. Preparing for, conducting, or reviewing negotiations or bargaining sessions with public employees concerning their compensation or other terms and conditions of their employment;
- E. Matters required to be kept confidential by federal law or rules or state statutes; and
- F. Specialized details of security arrangements where disclosure of the matters discussed might reveal information that could be used for the purpose of committing or avoiding prosecuting for, a violation of the law.

The Academy has several subcommittees that hold meetings and none of these subcommittees have recorded minutes. Also, executive sessions were held during regular meetings and the minutes stated that the Board of Directors were moving into executive session, but 29% of the minutes stating that the Board was moving into executive session for some of these sessions did not reflect the matter of the discussions.

Failure to properly record minutes could result in any resolution, rule, or action of any kind to be invalid.

We recommend that minutes be kept for all meetings held by the Board of Directors and the Academy's subcommittees. We also recommend that the minutes reflect the general subject matter of the discussions in executive session.

**FINDING NUMBER 2002-10431-008**

**Noncompliance – Bonding of Treasurer**

Ohio Rev. Code, Section 3314.011, requires every community school under this chapter to have a designated fiscal officer. The Auditor of State may require by rule that the fiscal officer of any community school, before entering upon duties as the fiscal officer of the school, execute a bond in an amount and with surety to be approved by the governing authority of the school, payable to the state, conditioned for the faithful performance of all the official duties required of the fiscal officer. Any such bond shall be deposited with the governing authority of the school, and a copy thereof, certified by the governing authority, shall be filed with the county auditor. Also, Ohio Admin. Code, 117-6-07, requires the fiscal officer to execute a bond prior to entering upon the duties of the fiscal officer as provided for in Ohio Rev. Code Section 3314.011. The bond amount and surety is to be established by a resolution of the governing authority.

**FINDING NUMBER 2002-10431-008  
(Continued)**

The Treasurer did not have a bond on file with the governing authority of the school or with the County Auditor and a copy of the bond covering the audit period could not be obtained from the Academy's insurance company. The Academy did not have a resolution establishing the bond amount and surety. However, the Treasurer was covered by the Academy's wrongful act portion of their insurance policy.

Failure to execute a bond with an amount established by Board resolution could result in loss of funds if theft or misappropriations of assets should occur.

We recommend that the Academy execute a bond with the amount and surety established by Board resolution.

On May 8, 2003, the Academy gave a copy of the commercial blanket bond that was renewed through September 17, 2003. According to the bond documentation the date of issue of the policy was July 30, 2002. The Academy did not provide evidence of coverage for the July 1, 2001 to June 30, 2002 audit period.

**FINDING NUMBER 2002-10431-009**

**Noncompliance – Background Checks**

The Academy's Charter, Article III, requires the following:

- The Governing Authority shall request that a favorable criminal record check be completed by the Bureau of Criminal Identification and Investigation (BCI&I) for each newly elected and/or appointed Governing Authority member. If one of the members fail to pass the criminal records check, their appointment to the Governing Authority shall be void.
- The Governing Authority shall request the superintendent of the Bureau of Criminal Identification and Investigation (BCI&I) to conduct a criminal records check with respect to any applicant who has applied to the community school for employment in any position as a person responsible for the care, custody, or control of a child pursuant to section 3319.39 of the Ohio Revised Code.
- The Governing Authority shall not hire a person for any position responsible for the care, custody, or control of a child until it receives a favorable criminal records check for that person from the Bureau of Criminal Identification and Investigation (BCI&I)

Forty-eight percent (48%) of employees and Board members did not have a BCI&I background check performed and twenty-nine percent (29%) of employees and Board members had a BCI&I background check performed after he or she was hired or appointed to the board.

Failing to provide background checks for all who are employed by the Academy could potentially expose students to persons with unfavorable backgrounds, who should not be responsible for the welfare of children, or responsible for the accounting function or custody of assets. It could also potentially expose the Academy to liability.

We recommend that the Academy obtain BCI&I background checks for all Board Members and all employment applicants prior to his or her employment as a person responsible for the care and custody of children.

On May 8, 2003, the Academy provided one BCI&I check for an employee who was hired on June 8, 2001. Her BCI&I check was completed on November 22, 2002. The Academy also provided three copies of fingerprints; however, the Academy provided no evidence of the completion of background checks for these individuals.

**FINDING NUMBER 2002-10431-010**

**Material Weakness/Reportable Condition – Payroll Third Party Administrator**

Hamilton County Mathematics and Science Academy (the Academy) has delegated payroll processing, which is a significant accounting function, to a third party administrator, Automatic Data Processing, Inc. (ADP). The Academy has not documented procedures to reasonably determine the payroll service organization has sufficient controls in place and operating effectively to reduce the risk that payroll has been completely and accurately processed in accordance with the payroll processing contract.

Furthermore, the Academy has not documented that internal control procedures were performed to reasonably determine that payroll has been completely and accurately processed in accordance with the payroll contract.

We recommend the Academy document the reconciliation of input (employees and hours worked) to the output (list of employees and corresponding checks from the service organization, as recorded on the payroll register the service organization provides). Documentation of this procedure will ensure that the Academy is paying and properly posting the correct amount.

**FINDING NUMBER 2002-10431-011**

**Material Weakness/Reportable Condition – Payroll Expenditures**

The existence of effective internal controls over the payroll process is an important and necessary part of ensuring that only proper and authorized payroll expenditures are made on behalf of the Academy. Internal controls over payroll were not in place and not operating effectively for the audit period. The following errors were noted during the testing of payroll:

- Form W-4 s were not on file for all employees;
- Fourteen state tax forms of the twenty-one tested were not located in the employees' files;
- Three of the twenty-one employees tested did not have a contract in their file;
- Five employees did not have a rate of pay specified in their employee files;
- Four employees did not have retirement forms on file;
- Time sheets were not always signed by the Principal and some time sheets were missing.
- Time sheets were not always completed. Some personnel signed in for work but did not sign out at the end of the day.
- For the August 28, 2001 payroll there were two sets of time sheets;
- All hourly employees are paid eighty-eight hours regardless of how many hours they actually worked.

The Board President signed a May 5, 2003 confirmation regarding the rates of pay for fiscal year 2002. Also, copies of missing sign-in/sign-out sheets with confirmation dated May 5, 2003 sent to the Principal from the Treasurer. The confirmation stated that the Principal was to "review the above items, make the correction and sign off". Had we not been able to obtain this subsequent documentation from the Board of Directors, it may have resulted in a scope limitation. Due to this, we deemed this to be a material weakness in their controls over payroll procedures. Failure to establish a favorable control environment could result in material misstatement, overpayment, or unauthorized payment relating to payroll expenditures.

**FINDING NUMBER 2002-10431-011  
(Continued)**

The following procedure should be applied to ensure that a favorable control environment is in place to identify misstatements either as they occur or through the review process:

- Time sheets should be completed and properly coincide with employee payroll to be sure that proper pay is being submitted each pay period.
- Approve each time sheet as set by Academy policy.
- Obtain employee contracts, W-4 forms, IT-4 forms, local tax forms, retirement forms, and teacher certifications and retain them in each employee's file.
- Review and approve ADP payroll reports.

**FINDING NUMBER 2002-10431-012**

**Material Weakness/Reportable Condition – Lunch Room Receipts**

The following control weaknesses were noted in the lunch room receipt cycle:

- The amount of over-the-counter receipts could not be verified by proper supporting documentation, such as cash register receipts.
- The Academy did not record breakfast, lunch, and snack for adult meals and student meals on CN-7 reports. Free, reduced, and full price meals were not recorded for student meals on CN-7 reports.
- The Academy reported \$1,427 for the sale of lunches for the fiscal year to the Ohio Department of Education and \$2,739 was recorded in the Academy's financial report for the sale of lunches.
- Based on attendance records (which does not include the missing attendance records for August 2001), the Academy should have received approximately \$6,132 and \$2,739 was recorded in the Academy's financial report for the sale of lunches.
- A comparison between Premier Management, the catering company, and the Academy's attendance reports there were significant variances between attendance records and meals served, with variances ranging from (64) students to 346 students, with nine of the eleven months attendance records showing more students than the catering company invoices showed. The Academy was reporting the higher amount of students on their attendance records to the State.
- Attendance records showed which students received free and reduced lunches. However, there were discrepancies between some students and whether they received free or reduced lunches.

For example, one month a student would be listed as free and the next month he would be listed as reduced.

- The Academy does not deposit lunch money collections daily.
- CN-7 reports do not agree to the Academy's monthly attendance records or the catering company's records of the meals served. Also, the CN-7 reports do not agree to the attendance sheets regarding the number of free and reduced lunches served.

**FINDING NUMBER 2002-10431-012**  
**(Continued)**

Also, the following deficiencies were noted during a site visit by Ohio Department of Education:

- Fourteen student applications were found to be in error. Some applications were incorrectly approved and/or some children did not receive benefits for which they were approved.
- Meals are not being recorded on the day served.
- Records as required by federal and state regulations are not being retained. These records include CN-7s and production records.
- Food productions records do not contain sufficient information to be useable such as number of meals served, and leftover.
- The verification of 3% of student applications was not done by the due date of December 15.
- According to a letter from the Office of Child Nutrition Services to the school dated July 29, 2002, OCNS has not received the Academy's school food service's corrective action regarding application errors, edit check procedure, production records, and verification as agreed upon at the exit conference, which was held on May 7, 2002.
- Also according to the letter, on June 8<sup>th</sup> the application for the National School Lunch Program was unapproved preventing any further claims for reimbursement per federal regulations.

These weaknesses and discrepancies could result in the loss of lunch room funding and misappropriation of funds. We recommend that the Academy implement the following improvements to the lunchroom financial operations:

- The Academy should implement a daily worksheet system to track meals served and retain these records. Prepaid and charged meals should be recorded on the day served.
- All records required by federal and state regulations should be retained for the current year plus three full years or until all audit issues are resolved as stated in the Permanent Agreements, page 6, 11, S.
- All future production records should contain minimum information as required by the Menu Planning Guide, page 38.
- At least 3% of the student applications should be reviewed by the due date of December 15. Appropriate changes in the eligibility status should be made and the parents should be contacted with the changes.
- The Academy should make all changes as requested by the Office of Child Nutrition Services so that reimbursements can be received.
- Teachers collecting lunch monies from the students should keep a record of who has paid the monies and how much was collected.

**FINDING NUMBER 2002-10431-012**  
**(Continued)**

- An accounts receivable system should be utilized so that monies owed by the students can be properly collected.
- Monies should be deposited in a timely manner, following Ohio Revised Code Section 9.38, which states that monies should be deposited within a business day.

**FINDING NUMBER 2002-10431-013**

**Material Weakness/Reportable Condition - Expenditures**

Thirty-two percent of purchase orders were not completed before the invoice date or the date of purchase. Failure to complete purchase orders before the actual purchase could result in overspending and ultimately could result in a negative fund balance.

We recommend that purchase orders be completed before the date of purchase and that the purchase orders be reviewed to ensure the expenditures are proper and necessary.



**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**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 15, 2003**