**HORIZON SCIENCE ACADEMY OF COLUMBUS**
**FRANKLIN COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2002**

**Auditor of State**
**Betty Montgomery**

**HORIZON SCIENCE ACADEMY OF COLUMBUS**
**FRANKLIN COUNTY**

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**Auditor of State**
**Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Board of Trustees
Horizon Science Academy of Columbus
Franklin County
1329 Bethel Road
Columbus, Ohio 43220

We have audited the accompanying Balance Sheet of the Horizon Science Academy of Columbus, Franklin County, Ohio (the School) as of June 30, 2002, and the related Statement of Revenues, Expenses and Changes in Accumulated Deficit and Statement of Cash Flows for the year then ended. These financial statements are the responsibility of the School'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 Horizon Science Academy of Columbus, Franklin County, Ohio, 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.

As described in Note 3 to the financial statements, certain corrections were made to restate the accumulated deficit as of July 1, 2001.

The accompanying financial statements have been prepared assuming that the School will continue as a going concern. As discussed in Note 21 to the financial statements, the School's significant operating and net losses cause substantial doubt about its ability to continue as a going concern. The School has an accumulated deficit of $507,236. Note 21 describes management's plans regarding these losses.

The Auditor of State has billed the School for services rendered for the consulting and audit services provided for fiscal year 2000, special audit services provided in 2001, and for consulting and audit services provided for fiscal year 2001. As of June 30, 2002, the School had been billed a total of $29,292 and had yet to pay $23,100, which is included in the accounts payable amount. This outstanding amount was deducted from the School's foundation revenues from Department of Education in September and October 2002.

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2003 on our consideration of the School'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.

Betty Montgomery

**BETTY MONTGOMERY**
Auditor of State

February 13, 2003

**HORIZON SCIENCE ACADEMY OF COLUMBUS**
**FRANKLIN COUNTY**

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

| | |
|---|---|
| **Assets** | |
| **Current Assets** | |
| Cash | $0 |
| Receivables | 1,975 |
| Prepaids | 8,544 |
| Total Current Assets | 10,519 |
| | |
| **Non-Current Assets** | |
| Security Deposit held by Lessor | 43,375 |
| Fixed Assets (Net of Accumulated Depreciation) | 175,778 |
| Total Non-Current Assets | 219,153 |
| | |
| Total Assets | 229,672 |
| | |
| **Liabilities and Equity** | |
| **Current Liabilities** | |
| Bank Overdraft | 28,316 |
| Accounts Payable | 41,416 |
| Intergovernmental Payable | 56,770 |
| Accrued Wages | 59,844 |
| Notes Payable, currently due | 15,259 |
| Capital Leases, currently due | 10,601 |
| Financing Agreement Liability, currently due | 140,064 |
| Total Current Liabilities | 352,270 |
| | |
| **Long Term Liabilities** | |
| Capital Leases Payable, net of current portion | 7,874 |
| Notes Payable, net of current portion | 11,229 |
| Operating Lease Payable | 60,932 |
| Personal Loans Payable | 183,029 |
| Financing Agreement, net of current portion | 121,844 |
| Total Long Term Liabilities | 384,908 |
| | |
| Total Liabilities | 737,178 |
| | |
| Accumulated Deficit | (507,236) |
| | |
| Total Liabilities and Equity | $229,942 |

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

**HORIZON SCIENCE ACADEMY OF COLUMBUS**
**FRANKLIN COUNTY**

**STATEMENT OF REVENUES, EXPENSES**
**AND CHANGES IN ACCUMULATED DEFICIT**
**FOR THE YEAR ENDED JUNE 30, 2002**

| | |
|---|---|
| **Operating Revenues** | |
| Foundation Payments | $ 1,068,255 |
| Book Fees | 35,051 |
| Lunch | 23,447 |
| Other | 16,314 |
| Total Operating Revenues | 1,143,067 |
| **Operating Expenses** | |
| Salaries | 612,362 |
| Fringe Benefits | 133,379 |
| Rent | 217,033 |
| Purchased Services | 113,785 |
| Materials & Supplies | 85,029 |
| Depreciation | 71,603 |
| Other | 22,369 |
| Total Operating Expenses | 1,255,560 |
| Operating Loss | (112,493) |
| **Non-Operating Revenues (Expenses)** | |
| Donations | 23,330 |
| Gain on Forgiveness of Debt | 58,217 |
| State Grants | 15,679 |
| Federal Grants | 174,079 |
| Interest on Capitalized Leases | (3,034) |
| Interest on Notes Payable | (4,078) |
| Interest on Financing Agreement for Leasehold Improvements | (17,143) |
| Total Non-Operating Revenues (Expenses) | 247,050 |
| Net Income | 134,557 |
| Accumulated Deficit at Beginning of Year (as restated) | (641,793) |
| Accumulated Deficit at End of Year | ($507,236) |

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

**HORIZON SCIENCE ACADEMY OF COLUMBUS**
**FRANKLIN COUNTY**

**STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED JUNE 30, 2002**

**Increase (decrease) In Cash:**

| | |
|---|---|
| **Cash Flows from Operating Activities** | |
| Cash Received from State of Ohio and Federal Government | $ 1,056,460 |
| Cash Received from Students | 58,519 |
| Cash Received from Other Sources | 17,839 |
| Cash Payments to Employees for Services and Benefits | (563,674) |
| Cash Payments for Employee Benefits | (155,109) |
| Cash Payments for Contractual Services | (358,539) |
| Cash Payments to Suppliers for Goods and Services | (93,716) |
| Cash Payments for other operating expenses | (22,369) |
| Net Cash Used for Operating Activities | (60,589) |
| | |
| **Cash Flows from Noncapital Financing Activities** | |
| Donations Received | 23,330 |
| Grants Received | 189,758 |
| Personal Loans Received from officers and employees | 10,000 |
| Payments to officers and employees for personal loans | (46,000) |
| Interest paid on notes | (4,078) |
| Principal payments on notes | (16,328) |
| Bank Overdraft Inflow | 28,316 |
| Bank Overdraft Outflow | (8,401) |
| Net cash provided by noncapital financing activities | 176,597 |
| | |
| **Cash Flows from Capital and Related Financing Activities** | |
| Acquisition of Capital Assets | (1,999) |
| Interest paid on capital leases | (3,034) |
| Principal payments on capital leases | (11,303) |
| Cash Payment for Capital Loans | (4,547) |
| Interest paid on financing agreement | (17,143) |
| Principal payments on financing agreement | (77,982) |
| Net Cash used for capital and related financing activities | (116,008) |
| | |
| Net Decrease in Cash | 0 |
| | |
| Cash at Beginning of Year | 0 |
| | |
| Cash at End of Year | $0 |

Continued

**HORIZON SCIENCE ACADEMY OF COLUMBUS**
**FRANKLIN COUNTY**

**STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED JUNE 30, 2002**
**(Continued)**

| | |
|---|---|
| **Reconciliation of Operating Loss to Net Cash Used for Operating Activities** | |
| Operating Loss | ($112,493) |
| **Adjustments to reconcile Operating Loss to Net Cash Used for Operating Activities** | |
| Depreciation | 71,603 |
| Changes in Assets and Liabilities | |
| Increase in Intergovernmental Receivable | (1,975) |
| Decrease in Other Receivable | 1,546 |
| Increase in Prepaids | (7,940) |
| Decrease in Accounts Payable | (25,389) |
| Increase in Intergovernmental Payable | 10,745 |
| Increase in Accrued Wages Payable | 18,436 |
| Decrease in Claims Payable | (1,155) |
| Decrease in Operating Lease Payable | (13,967) |
| Total Adjustments | 51,904 |
| Net Cash Used for Operating Activities | ($60,589) |

Noncash Activity:

| | |
|---|---|
| Personal Loans Forgiven | $40,110 |
| Capital Loans Forgiven | 18,107 |

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002**

## 1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Horizon Science Academy of Columbus, Inc. (the School) is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to address the needs of students in grades seven through nine. The School, which is part of the State's education program, is independent of any School and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School. Horizon Science Academy qualifies as an exempt organization under Section 501(c) (3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the school's tax exempt status.

The School was approved for operation under contract with the Ohio Department of Education (the Sponsor) for a period of five years commencing August 6, 1999. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The School operates under the direction of a five-member Board of Trustees. The Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board of Trustees controls the School's one instructional/support facility staffed by 3 non-certified and 10 certificated full time teaching personnel who provide services to up to 193 students during the year. The same Board of Trustees governs the Horizon Science Academy of Cleveland, Inc.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Horizon Science Academy of Columbus, Inc. 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 School also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989 to its proprietary activities, provided they do not conflict with or contradict GASB pronouncements. The School does not apply FASB states issued after November 30, 1989. The more significant of the School's accounting policies are described below.

### A. Basis Of Presentation

The School uses enterprise accounting to report on 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 associated with the operation of these funds are included on the balance sheet. The School had no contributed capital.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### B. Measurement Focus and Basis of Accounting (Continued)

Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. 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 the reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue.

### 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 contract between the School and its sponsor. The contract between the School and its Sponsor does not prescribe a budgetary process for the School, therefore no budgetary information is presented in the financial statements.

### D. Cash

All cash received by the School, except some lunchroom activity, is pooled in a central bank account. During fiscal year 2002, the School utilized a separate bank account for some lunchroom activity.

The School did not have any investments during fiscal year 2002.

### E. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2002, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### F. Fixed Assets and Depreciation

Fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School maintains a capitalization threshold of one thousand dollars. Leasehold improvements are capitalized. The School does not have any infrastructure. The School does not capitalize interest. 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 are depreciated using the straight-line method over the life of the lease. Furniture, fixtures, vehicles and equipment are depreciated using the straight-line method over the following estimated useful lives. Improvements to fixed assets are depreciated over the remaining useful lives of the related fixed assets.

| Asset | Useful Life |
|---|---|
| Leasehold Improvements | 5 years (life of lease) |
| Furniture and Fixtures | 10 years |
| Equipment and Vehicles | 5 - 10 years |

### G. Intergovernmental Revenues

The School currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid (DPIA) Program. Revenues received from these programs are recognized as operating 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 use is first permitted, matching requirements, in which the school must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the school on a reimbursement basis.

The School also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the School was awarded $150,000 to offset start-up costs of the school. This money can be used for certain expenses as described in the grant agreement. As of June 30, 2002, the School used the grant for various supplies and materials and other operational costs. Revenue received from this program is recognized as non-operating revenue in the accompanying financial statements.

Amounts awarded under the above named programs for the 2002 school year totaled $1,258,013.

### H. Compensated Absences

All leave earned by employees must be used in the current period. Balances are not carried forward, and, therefore, are not recorded as a liability.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### I. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

## 3. PRIOR PERIOD ADJUSTMENTS AND CHANGE IN ACCOUNTING PRINCIPLE

The School did not properly record the security deposit paid to the lessor and the leasehold improvements made to the leased buildings (and related accumulated depreciation) in the prior years. This change resulted in an increase in non-current assets and a decrease in accumulated deficit of $43,375.

The School incorrectly recorded the financing agreement liability and related accrued interest as part of the operating lease liability in the prior years. This change resulted in the creation of the financing agreement liability line item in the amount of $339,890, including related accrued interest, a reduction in operating lease payable of $133,056, and an increase in accumulated deficit of $36,128.

The School did not properly reduce capital loans payable in fiscal year 2000 by payments made with the proceeds of a note. This change resulted in a decrease in capital loans payable and a decrease in accumulated deficit of $11,047.

The School improperly recorded a reduction in personal loans in fiscal year 2001 of $550. This change resulted in an increase in personal loans payable and increase in accumulated deficit of $550.

During fiscal year 2002, the School changed the capitalization threshold for fixed assets from $500 to $1,000 dollars. This changed resulted in a reduction of net fixed assets and increased accumulated deficit by $36,417.

The correction of these errors and change in accounting principle resulted in the following restatement of accumulated deficit:

| | |
|---|---|
| Reported Accumulated Deficit at June 30, 2001 | ($623,120) |
| Change due to recognition of Security Deposit | 43,375 |
| Change due to proper recognition of financing agreement as a separate liability from operating lease | (36,128) |
| Change due to proper reduction of capital loans payable for payments made in fiscal year 2000 | 11,047 |
| Change due to proper recognition of personal loans payable | (550) |
| Change due to change in capitalization threshold | (36,417) |
| Restated Accumulated Deficit at June 30, 2001 | ($641,793) |

The effect on net income in the prior periods is not practically determinable.

## 4. DEPOSITS

At June 30, 2002, the carrying amount of the School's deposits was a deficit of $28,316, and the bank balance was $19,188. The total bank balance was federally insured up to $100,000.

The School had no investments at June 30, 2002 or during the fiscal year.

## 5. INTERGOVERNMENTAL RECEIVABLE

Intergovernmental receivable at June 30, 2002, consisted of foundation revenues in the amount of $1,975 for fiscal year 2002.

## 6. SECURITY DEPOSIT

According to the operating lease agreement (see Note 14), the School paid the lessor $43,375 during fiscal year 2000 as a security deposit for the building lease. This amount is being held by B & A Realty and will be remitted to the School at the end of the lease if all lease commitments are paid.

## 7. FIXED ASSETS

A summary of the School's fixed assets at June 30, 2002, follows:

| Asset | Balance at June 30, 2002 |
|---|---|
| Leasehold Improvements | $284,510 |
| Furniture and Fixtures | 41,773 |
| Equipment | 55,256 |
| Vehicles | 5,675 |
| Total Fixed Assets | 387,214 |
| Less: Accumulated Depreciation | (211,436) |
| Net Fixed Assets | $175,778 |

## 8. RISK MANAGEMENT

### A. Property and Liability

The School is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2002, the School contracted with Harcum-Hyre Insurance Company for property and general liability insurance with a $1,000,000 single occurrence limit and $3,000,000 annual aggregate and no deductible.

### B. Worker's Compensation

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

## 9. DEFINED BENEFIT PENSION PLANS

### A. School Employees Retirement System

The School contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 E. Broad Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9% of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2002, 5.46% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000 were $3,834, $2,628, and $1,499, respectively; 52% has been contributed for fiscal year 2002; 100% has been contributed for fiscal year 2001; and 100% has been contributed for fiscal year 2000. As of June 30, 2002, the School's liability to SERS was $4,520, of which $1,833 was for pension obligations.

### B. State Teachers Retirement System

The School contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone 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 43215-3371.

## 9. DEFINED BENEFIT PENSION PLANS (Continued)

### B. State Teachers Retirement System (Continued)

For the fiscal year ended June 30, 2001, plan members were required to contribute 9.3% of their annual covered salaries. The School was required to contribute 14%; 9.5% was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The School's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were $49,256 $39,672 and $42,841, respectively; 100% has been contributed for fiscal years 2002, 2001, and 2000.

## 10. POSTEMPLOYMENT BENEFITS

The School 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 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 law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14% of covered payroll. For the fiscal year ended June 30, 2001, the STRS Board allocated employer contributions equal to 4.5% of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled $23,332 for fiscal year 2002.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001, (the latest information available) the balance in the Fund was $3.256 billion. For the year ended June 30, 2001, 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% of the premium.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2002, employer contributions to fund health care benefits were 8.54% percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay was established at $12,400. The School required contributions to fund health care benefits, including the surcharge, during the 2002 fiscal year equaled $7,357. As of June 30, 2002, the School's liability to SERS was $4,520, of which $2,687 was for health care benefits.

## 10. POSTEMPLOYMENT BENEFITS (Continued)

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 benefits of $315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

## 11. EMPLOYEE MEDICAL AND DENTAL BENEFITS

The School has contracted with a private carrier to provide employee medical/surgical benefits. The School pays 60% of the monthly premium and the employee is responsible for the remaining 40%. The School has also contracted with private carriers to provide dental coverage. The School pays 60% of the monthly premium and the employee is responsible for the remaining 40%.

## 12. PURCHASED SERVICES

Purchased service expenses during fiscal year 2002 were as follows:

| | |
|---|---|
| Utilities | 31,237 |
| Computer Services | 5,086 |
| Advertising | 23,756 |
| Legal and Accounting Services | 19,167 |
| Shipping/Postage | 6,197 |
| Maintenance Services | 18,578 |
| Pupil Transportation | 6,300 |
| Miscellaneous | 3,464 |
| Total Purchased Services | $113,785 |

## 13. CAPITAL LEASES – LESSEE DISCLOSURE

In the prior year, the School entered into several capitalized lease agreements for equipment. The leases meet the criteria of a capital lease as defined by *Statement of Financial Accounting Standards No. 13, "Accounting for Leases,"* which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital assets of $40,711 have been recorded, which represents the present value of the minimum lease payments at time of acquisition. The accumulated depreciation for the capital lease fixed assets was $19,770 at June 30, 2002. Principal payments for fiscal year 2002 totaled $11,303.

## 13. CAPITAL LEASES – LESSEE DISCLOSURE (Continued)

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2002. The School did not make $622 in required lease payments in fiscal year 2002. This amount has been included in the amounts due during 2003 in the table below:

| Fiscal Year Ending June 30, | Lease Payments |
|---|---|
| 2003 | $11,554 |
| 2004 | 5,476 |
| 2005 | 2,552 |
| Total Minimum Lease Payments | 19,582 |
| Less: Amount Representing Interest | (1,107) |
| Present Value of Minimum Lease Payments | $18,475 |

## 14. OPERATING LEASE – LESSEE DISCLOSURE

On August 19, 1999, the School entered into a Lease Agreement for the lease of three buildings that are used for school operations. Per the lease agreement, rental payments are based on the square footage of each of the three buildings and an annual increase is included. At the end of the sixty month original lease term, one renewal term of sixty months is optional. Under generally accepted accounting principles, the School recognizes these lease expenses on a straight line basis. Future rental payments are as follows:

| Fiscal Year Ending June 30, | Lease Expense | Lease Cash Payments |
|---|---|---|
| 2003 | $217,034 | $247,500 |
| 2004 | 217,034 | 247,500 |
| Future Rental Payments | $434,068 | $495,000 |

## 15. FINANCING AGREEMENT LIABILITY

As part of the operating lease for the school buildings (see Note 14), the School agreed to pay for $284,510 in leasehold improvements to the buildings for construction/modification costs and for $55,380 in interest accruing between the completion date of the leasehold improvements (September 1999) and July 1, 2001. The School began making monthly installments on the leasehold improvements and accrued interest on July 1, 2001, with additional interest accruing at 10.50% on the full balance of $339,890.

The School began making payments on this liability in July of 2001. The School did not remit payments for this liability during the last three months of the fiscal year. This portion of the liability is considered current and is included in the fiscal year 2003 amounts in the following amortization schedule.

## 15. FINANCING AGREEMENT LIABILITY (Continued)

Future payments on this liability are as follows:

| Fiscal Year Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2003 | $140,064 | $18,479 | $158,543 |
| 2004 | 121,844 | 4,993 | 126,837 |
| Total Payments | $261,908 | $23,472 | $285,380 |

## 16. NOTES PAYABLE

In the prior fiscal year, the School borrowed funds for operations. The following is a summary of that activity:

| | Interest | Balance June 30, 2001 | Payments | Balance June 30, 2002 |
|---|---|---|---|---|
| Newcourt Financial | 13.90% | $17,477 | ($9,650) | $7,827 |
| National City | 10.73% | 25,339 | (6,679) | 18,660 |
| Total | | $42,816 | ($16,329) | $26,487 |

Amortization of the School's notes payable is as follows:

| Fiscal Year Ending June 30, | Newcourt Financial | | National City | | |
|---|---|---|---|---|---|
| | Principal | Interest | Principal | Interest | Total Payments |
| 2003 | 7,827 | 413 | 7,432 | 1,644 | 17,316 |
| 2004 | 0 | 0 | 8,270 | 806 | 9,076 |
| 2005 | 0 | 0 | 2,958 | 60 | 3,018 |
| Total | 7,827 | 413 | 18,660 | 2,510 | 29,410 |

The loan from Newcourt Financial is collateralized by certain computer equipment. The loan from National City is uncollateralized.

These loans are in violation of Ohio Rev. Code Section 3314.08(j), which states that all loans must mature no later than the end of the fiscal year.

## 17. PERSONAL LOANS PAYABLE

The School received personal loans from Board Members, Administrators, and other individuals throughout the year to continue operations. There is no interest associated with these loans and repayment is not scheduled. The school will repay these loans when funds are available. These loans are uncollateralized. The following is a summary of that activity:

| Lender | Restated Balance June 30, 2001 | Additions | Payments | Loans Forgiven | Balance June 30, 2002 |
|---|---|---|---|---|---|
| H. B. Karayaka | $131,054 | $10,000 | $30,500 | $40,110 | $70,444 |
| T. Faki | 30,000 | 0 | 0 | 0 | 30,000 |
| S. Ozdemir | 24,500 | 0 | 0 | 0 | 24,500 |
| V. Akgun | 20,000 | 0 | 0 | 0 | 20,000 |
| F. Ertekin | 17,835 | 0 | 0 | 0 | 17,835 |
| M. Demirci | 15,000 | 0 | 5,000 | 0 | 10,000 |
| H. Disli | 10,000 | 0 | 4,500 | 0 | 5,500 |
| I. Unlusoy | 1,500 | 0 | 0 | 0 | 1,500 |
| R. Uysaler | 2,000 | 0 | 2,000 | 0 | 0 |
| M. Demirbas | 2,500 | 0 | 0 | 0 | 2,500 |
| G. Taysever | 2,000 | 0 | 2,000 | 0 | 0 |
| A. Caputlu | 2,000 | 0 | 2,000 | 0 | 0 |
| S. Bicer | 750 | 0 | 0 | 0 | 750 |
| Total | $259,139 | $10,000 | 46,000 | 40,110 | $183,029 |

These loans are in violation of Ohio Rev. Code Section 3314.08(j), which states that all loans must mature no later than the end of the fiscal year and be in writing.

## 18. CAPITAL LOANS PAYABLE

In fiscal year 2000, employees of the School, Board Members, and other individuals purchased computers on behalf of the School. These individuals were to be reimbursed with the funds borrowed from Newcourt Financial. This note was obtained using the computers as collateral. All of the proceeds from that note, however, were not used to repay those individuals and, instead, were used for regular operations. These computers were not considered donations, but capital loans. The School paid $4,547 to reduce this liability during the fiscal year. An additional $18,107 in capital loans were forgiven during fiscal year 2002. The following is a summary of this activity during the fiscal year:

| Restated Balance June 30, 2001 | Payments and amounts Forgiven | Balance June 30, 2002 |
|---|---|---|
| $22,654 | $22,654 | $0 |

## 19. RELATED PARTY TRANSACTIONS

The Personal and Capital Loans described in Notes 17 and 18 are considered related party transactions.

## 20. CONTINGENCIES

### A. Grants

The School 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 School. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2002.

### B. State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding decision is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient..."

As of the date of these financial statements, the School is unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

### C. Ohio Department of Education Enrollment Review

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the School. These reviews are conducted to ensure the Community School is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The review for fiscal year 2002 resulted in the discovery of an underpayment to the School in the amount of $1,975. This amount has been reflected as an intergovernmental receivable and as foundation revenue in the financial statements.

### D. Litigation

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

## 21. MANAGEMENT'S PLAN

The School has significant recurring operating losses and bank overdrafts from operating activities. Management plans to continue to decrease the accumulated deficit by increasing student enrollment and reducing outstanding debt.

**Auditor of State**
**Betty Montgomery**

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

Board of Trustees
Horizon Science Academy of Columbus
Franklin County
1329 Bethel Road
Columbus, Ohio 43220

We have audited the financial statements of the Horizon Science Academy of Columbus, Franklin County, Ohio, (the School) as of and for the year ended June 30, 2002, and have issued our report thereon dated February 13, 2003, wherein we expressed substantial doubt about the School's ability to continue as a going concern, disclosed audit and consulting fees that have been billed to the School and the portion that remained unpaid at the balance sheet date, and noted the School made certain corrections to restate retained earnings as of July 1, 2001. 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 School'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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2002-10625-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the School in a separate letter dated February 13, 2003.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the School'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 School's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2002-10625-001 through 2002-10625-008.

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

**Internal Control Over Financial Reporting**
**(Continued)**

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 items 2002-10625-001 through 2002-10625-008 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 School in a separate letter dated February 13, 2003.

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

Betty Montgomery

**BETTY MONTGOMERY**
Auditor of State

February 13, 2003

**HORIZON SCIENCE ACADEMY OF COLUMBUS**
**FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS**
**FOR THE YEAR ENDED JUNE 30, 2002**

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

**Material Noncompliance**

| | |
|---|---|
| **Finding Number** | **2002-10625-001** |

Ohio Rev. Code Section 3314.08(J) states 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 was borrowed. The proceeds of the notes shall be used only for the purposes for which the anticipated receipts may be lawfully expended by the school.

The School has $26,487 in loans outstanding with Newcourt Financial and National City. These loans did not mature by fiscal year end and are not scheduled to mature until 2003 and 2005, respectively.

The School also has $183,029 in personal loans outstanding from individuals. These loans are not in writing and there are no amortization schedules. The lack of maintaining debt agreements could lead to errors in payment and possible disagreements in amounts owed.

We recommend the School maintain a loan agreement for all personal loans. In addition, all debt issuances should be approved by the Board. The School should ensure it is in compliance with applicable statues when entering into debt agreements.

**Material Weaknesses**

| | |
|---|---|
| **Finding Number** | **2002-10625-002** |

**Accounting System**

The School recorded the financial activity of the District in a manual ledger. The School did not record the type of activity for receipts or expenditures being recorded, i.e. intergovernmental receipt, book fee, salary expenditure, materials and supplies, etc. The School's fund balance could not be adequately tracked. As a member of Metropolitan Education Consortium, the School paid a monthly fee for computer software and services that would have allowed for expenditure/receipt coding, fund balance tracking, preparation of monthly financial reports, etc. The School only used this system to calculate payroll.

Using the manual system, the School was unable to prepare complete bank reconciliations or financial statements. The lack of a proper accounting system led to overdraft bank balances and could allow errors and omissions to go undetected by management.

We recommend the School properly record all aspects of financial transactions, i.e. date, receipt/check number, source/vendor, amount, and type of activity. The School should maintain a fund balance that is increased or decreased with each transaction. This type of accounting will allow the School to adequately track fund balance, perform complete monthly bank reconciliations, and to prepare monthly cash basis financial statements.

The School did begin using an automated system in April, 2002 and entered all financial activity for fiscal year 2002 into this system.

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)**

**Material Weaknesses (Continued)**

| Finding Number | 2002-10625-003 |
|---|---|

**Bank Reconciliations**

Monthly bank to book reconciliations were not completed in a timely manner during the fiscal year. The School utilized daily statements from the bank to monitor cleared transactions and bank balances.

The lack of monthly bank to book reconciliations could lead to undetected errors or irregularities that could affect both the accounting records and the depository activity.

We recommend the School ensure monthly bank reconciliations are performed on a timely basis. Discrepancies between the amounts on the bank statements and fund balances should be investigated and resolved. The complete reconciliation, including reconciling items and adjustments should be provided to the Director and Board for review on a timely basis.

The School began preparing the monthly bank reconciliations for fiscal year 2002 in April, 2002. All of the reconciliations for fiscal year 2002 were completed by the end of August, 2002. The Board approved these reconciliations at the September, 2002 meeting.

| Finding Number | 2002-10625-004 |
|---|---|

**Receipts Cycle**

The following control weaknesses were noted in the system for processing receipts:

- Adequate supporting documentation was not always maintained for book fees, lunch receipts, extracurricular activities, etc., particularly for receipts of cash

Failure to establish a favorable control environment could result in undetected errors or irregularities. The following procedures should be applied to help ensure a favorable control environment:

- Record the date, amount, source, and type for each cash receipt.
- Maintain supporting documentation for all receipts in an orderly and accessible manner.
- Receipt activity should be reviewed by the Director and this review should be documented.
- For lunch receipts, a reconciliation should be performed and reviewed between the amount which should be collected (based on number of lunches or a la carte items sold) and the amount of the deposit

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)**

**Material Weakness (Continued)**

| Finding Number | 2002-10625-005 |
|---|---|

**Payroll Cycle**

The following control weaknesses were noted in the system for processing payroll:

- Documentation was not provided in the minutes for new hires, pay rates for employees, stipends (i.e. after school, substitution rates), benefits, and information about at-will employees (i.e. rate, maximum hours, etc.). Formal leave forms were not maintained indicating leave accruals or leave time taken during the fiscal period. The School did maintain informal documentation of leave used.
- Documentation was not maintained for contract amount changes and pay calculations (if needed)
- Proper Enrollment forms (i.e. W-4 forms, State and Local Income Tax Withholding Information, Retirement Enrollment forms) were not always maintained.
- Formal time sheets were maintained for part-time/hourly employees; however, supervisory approval was not obtained, indicating the correct hours worked were documented. The School did maintain informal documentation of these hours.

This internal control weakness could result in overpayments or unauthorized payments.

The following procedures should be applied:

- Board of Trustee approval of hiring for all employees, including administrative, teachers, secretaries, at-will, etc. via minutes.
- Board of Trustee approval of all pay rates and increases (including stipends) via minutes;
- Director review of payroll to ensure all employees' gross wages as paid agree to the approved pay rate and documentation of this review;
- Process requiring all wages paid to hourly (non-salary)employees to be adequately supported by a time sheet documenting hours worked and which has been appropriately approved by someone with sufficient knowledge to verify the hours worked and documentation of this approval;
- Review process of attendance of salaried employees; and
- Maintain personnel records for employees showing leave accrued, leave used, substitution and after school activity hours and document that these records are reviewed by the Director.

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)**

**Material Weaknesses (Continued)**

| | |
|---|---|
| **Finding Number** | **2002-10625-006** |

**Purchasing Cycle**

The following control weaknesses were noted in the purchasing process:

- There was no prior written authorization of purchases by the Director. The Director verbally approved purchases. Large purchases were approved in writing beginning in April, 2002.
- Expenditures were not coded for the type of activity, i.e. supplies and materials, capital outlay, debt service, etc. until April, 2002.
- Supporting documentation, i.e. receipts, invoices, and payment stubs, were not available in a few instances.

These control weaknesses could result in errors or misstatements in the financial records, the unauthorized purchase of goods or services, or the misappropriation of school assets.

The processing of non-payroll disbursements should, at a minimum, include, but is not limited to:

- Prior authorization of a purchase, through the use of a purchase order (requisition) which should be approved and documented through appropriate members of management and which should include appropriate coding of the expenditures;
- Accumulation of appropriate supporting documentation (original invoices or receipt for reimbursement requests) prior to authorization for payment;
- Matching of invoice with purchase order (requisition) and copy of check or check stub to ensure all supporting documentation has been reviewed;
- Review of check used to pay the purchase and supporting documentation to ensure the payee, amount, address, etc. on the check and invoice agree;
- Review of expenditures as posted to the expenditure ledger to ensure appropriate coding was utilized for payment; and
- Maintain all supporting documentation for expenditures in an orderly and accessible manner.

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)**

**Material Weaknesses (Continued)**

| | |
|---|---|
| **Finding Number** | **2002-10625-007** |

**Fixed Assets**

The following control weaknesses over fixed assets exist:

- A fixed asset accounting system which maintains total fixed asset listings, by location, with tag identification numbers and other supplemental information has not been developed.
- The School has not accurately developed and implemented procedures to assist in recording assets as additions when purchased, and deletions when disposed.
- The Board has not developed a fixed asset policy.

Failure to obtain timely records or employ adequate controls over the acquisition and disposal of fixed assets could result in misappropriation of assets and misstatements of recorded assets.

We recommend the Board of Trustees develop and implement procedures for the recording and updating fixed assets. These procedures should include tagging all assets meeting the capitalization criteria, using addition and disposal forms, and record the tag number, description, original cost, acquisition date, useful life, and location on the fixed asset system.

| | |
|---|---|
| **Finding Number** | **2002-10625-008** |

**Monitoring Control System**

An effective monitoring control system has not been implemented to assist management. Monitoring controls comprise of regular management and supervisory activities established to oversee whether management's objectives are being achieved, covering operational and legal compliance, as well as financial control objectives. Effective monitoring controls should identify unexpected results or exceptions (including significant compliance exceptions), investigate underlying causes, and take corrective action.

Monitoring controls may be in the nature of ongoing activities or periodic separate evaluation by either management or an internal audit function. They can relate to a specific transaction cycle or can be in a more overview nature. Monitoring controls should assist management in detecting material misstatements in financial or other information and can include:

- regular review of financial report summaries of sufficient detail (monthly detailed revenue and expenditure reports)
- review of key performance indicators
- review of unusual or significant items, long outstanding items, etc.
- identification of unusual fluctuations
- monitoring that grant monies are used in accordance with grant requirements
- ensuring an adequate segregation of duties exist, and
- review of monthly reconciliations.

**HORIZON SCIENCE ACADEMY OF COLUMBUS**
**FRANKLIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS**
**JUNE 30, 2002**

| Finding Number | Summary | Status of Finding |
|---|---|---|
| 2001-10625-001 | Finding for Recovery | Repaid during audit period |
| 2001-10625-002 | Article 3, Section B of School Charter: non-compliance with requirements set forth in Financial Plan | Partially Corrected-now a Management Letter comment, except for Fixed Assets which is included in Finding 2002-10625-007 |
| 2001-10625-003 | Ohio Revised Code 3314.08(J) – Community School debt must be evidenced by notes and mature by fiscal year end. | Not Corrected; see Finding 2002-10625-001 |
| 2001-10625-004 | Accounting System | Not Fully Corrected; see Finding 2002-10625-002 |
| 2001-10625-005 | Bank Reconciliations | Not Fully Corrected; see Finding 2002-10625-003 |
| 2001-10625-006 | Payroll Cycle | Not Corrected; see Finding 2002-10625-005 |
| 2001-10625-007 | Purchasing Cycle | Not Fully Corrected; see Finding 2002-10625-006 |
| 2001-10625-008 | Receipts Cycle | Not Corrected; see Finding 2002-10625-004 |
| 2001-10625-009 | Fixed Assets | Not Corrected; see Finding 2002-10625-007 |
| 2001-10625-010 | Monitoring Control System | Not Corrected; see Finding 2002-10625-008 |
| 2001-10625-011 | Debt | Not Corrected; recommendation combined with noncompliance citation Finding 2002-10625-002 |

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

## HORIZON SCIENCE ACADEMY OF COLUMBUS

## FRANKLIN COUNTY

## CLERK'S CERTIFICATION

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

Susan Babbitt

**CLERK OF THE BUREAU**

**CERTIFIED**
**APRIL 10, 2003**