



**HORIZON SCIENCE ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

**REGULAR AUDIT**

**FOR THE FISCAL PERIOD AUGUST 6, 1999 THROUGH JUNE 30, 2000**



**JIM PETRO**  
**AUDITOR OF STATE**  

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**STATE OF OHIO**



**HORIZON SCIENCE ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

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**REPORT OF INDEPENDENT ACCOUNTANTS**

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

We have audited the Balance Sheet of Horizon Science Academy of Columbus, Franklin County, Ohio, (the School) as of June 30, 2000 and the related Statement of Revenues, Expenses, and Changes in Accumulated Deficit, and the Statement of Cash Flows for the fiscal period August 6, 1999 through June 30, 2000. 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 generally accepted auditing standards 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 the Horizon Science Academy of Columbus, Franklin County, Ohio, as of June 30, 2000, and the results of operations and its cash flows for the period then ended in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the School will continue as a going concern. As discussed in Note 18 to the financial statements, the School's significant operating losses raise substantial doubt about its ability to continue as a going concern. Note 18 also describes management's plans regarding these losses. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2000 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.

**JIM PETRO**  
Auditor of State

December 1, 2000

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**HORIZON SCIENCE ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

**BALANCE SHEET  
AS OF JUNE 30, 2000**

**Assets**

Current Assets

Cash and Cash Equivalents	\$17,018
Receivables:	
Intergovernmental	2,560
Other	108
	<hr/>
Total Current Assets	19,686

Non-Current Assets

Fixed Assets (Net of Accumulated Depreciation)	120,521
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<b>Total Assets</b>	<b>\$140,207</b>
	<hr/> <hr/>

**Liabilities and Equity**

Current Liabilities

Accounts Payable	13,462
Intergovernmental Payable	7,112
Notes Payable, currently due	15,224
Capital Leases, currently due	12,905
Accrued Wages	53,409
	<hr/>
Total Current Liabilities	102,112

Long Term Liabilities

Capital Leases Payable, net of current portion	24,662
Capital Loans Payable	33,701
Notes Payable, net of current portion	42,816
Personal Loans Payable	39,585
Operating Lease Payable	99,332
	<hr/>

<b>Total Liabilities</b>	<b>342,208</b>
	<hr/>

Equity

Accumulated Deficit	(202,001)
	<hr/>

<b>Total Equity</b>	<b>(202,001)</b>
	<hr/>

<b>Total Liabilities and Equity</b>	<b>\$140,207</b>
	<hr/> <hr/>

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 FISCAL PERIOD AUGUST 6, 1999 THROUGH JUNE 30, 2000**

**Operating Revenues**

Foundation Payments	\$655,426
Book Fees	3,509
Lunch	2,477
Other	3,659
	665,071
 Total Operating Revenues	 665,071

**Operating Expenses**

Salaries and Pension Contributions	397,917
Fringe Benefits	23,870
Purchased Services	
Utilities	31,790
Rent	305,249
Other	86,234
Materials & Supplies	82,297
Depreciation	20,922
Other	12,897
	961,176
 Total Operating Expenses	 961,176

Operating Loss	(296,105)
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**Non-Operating Revenues(Expenses)**

Donations	946
State and Federal Grants	100,000
Interest on Capitalized Leases	(2,783)
Interest on Notes Payable	(4,059)
	94,104
 Total Non-Operating Revenues (Expenses)	 94,104

<b>Net (Loss)</b>	<b>(202,001)</b>
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Accumulated Deficit at Beginning of Year	0
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<b>Accumulated Deficit at End of Year</b>	<b>(\$202,001)</b>
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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 FISCAL PERIOD AUGUST 6, 1999 THROUGH JUNE 30, 2000**

**Cash Flows from Operating Activities**

Cash Received from State of Ohio	\$652,866
Cash Received from students and other	9,537
Cash Payments to Suppliers for Goods and Services	(407,796)
Cash Payments to Employees for Services and Benefits	<u>(361,266)</u>
Net cash used for operating activities	<u>(106,659)</u>

**Cash Flows from Noncapital Financing Activities**

Donations	946
State and Federal Grants	100,000
Borrowing from officers and employees	71,885
Payments to officers and employees	(32,300)
Proceeds of notes	68,701
Interest paid on notes	(4,059)
Principal payments on notes	(10,661)
Net cash provided by noncapital financing activities	<u>194,512</u>

**Cash Flows from Capital and Related Financing Activities**

Acquisition of Capital Assets	(64,084)
Interest paid on capital leases	(2,783)
Principal payments on capital leases	<u>(3,968)</u>
Net Cash used for capital and related financing activities	(70,835)
Net Increase in Cash and Cash Equivalents	17,018
Cash and Cash Equivalents Beginning of Year	<u>0</u>
Cash and Cash Equivalents End of Year	<u><u>\$17,018</u></u>

Continued

**HORIZON SCIENCE ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

**STATEMENT OF CASH FLOWS  
FOR THE FISCAL PERIOD AUGUST 6, 1999 THROUGH JUNE 30, 2000  
(Continued)**

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

Operating Loss	(\$296,105)
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**Adjustments to reconcile Operating Loss to Net  
Cash Used for Operating Activities**

Depreciation	20,922
Changes in Assets and Liabilities	
Increase in Intergovernmental Receivable	(2,560)
Increase in Other Receivable	(108)
Increase in Accounts Payable	11,339
Increase in Intergovernmental Payable	7,112
Increase in Operating Lease Payable	99,332
Increase in Accrued Wages Payable	53,409
	<hr/>
Total Adjustments	189,446
	<hr/>
Net Cash Used for Operating Activities	(\$106,659)
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**Schedule of Noncash Investing, Capital and Financing Activities**

The School issued \$33,701 in notes in exchange for equipment.  
The School obtained equipment valued at \$41,535, recorded as a capital lease.

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

**HORIZON SCIENCE ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2000**

**1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY**

Horizon Science Academy of Columbus, Inc. (the School) is nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to address the needs of students in grades 7 through 9. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the school.

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 7 noncertified and 10 certificated full time teaching personnel who provide services to 161 students. The same Board of Trustees governs the Horizon Science Academy of Cleveland.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Horizon Science Academy of Columbus have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the School's accounting policies are described below.

**A. Basis Of Presentation**

**Enterprise Accounting**

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.

**HORIZON SCIENCE ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2000  
(Continued)**

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

**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. Equity (i.e., net total assets) is segregated into contributed capital and accumulated deficit components. 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 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 Rev. Code Chapter 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor does not prescribe a budgetary process for the School.

**D. Cash and Cash Equivalents**

To improve cash management, all cash received is pooled in a central bank account.

**E. Fixed Assets and Depreciation**

Fixed assets are capitalized at cost and updated for additions and retirements during the year. The School maintains a capitalization threshold of five hundred dollars. The School does not possess any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Property, plant and equipment is 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.

<u>Asset</u>	<u>Useful Life</u>
Furniture and Fixtures	10
Equipment	5 - 10

**F. Intergovernmental Revenues**

The School currently participates in the State Foundation Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which they are earned and become measurable. The School also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the School was awarded \$50,000 to offset start-up costs of the School. The School also was awarded \$50,000 from the Ohio Department of Education. This money can be used for certain expenses as described in the grant agreement. As of June 30, 2000 the School expended the money on capital equipment.

**HORIZON SCIENCE ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2000  
(Continued)**

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

**G. Compensated Absences**

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

**3. DEPOSITS AND INVESTMENTS**

At June 30, 2000, the School had a cash balance of \$17,018. The bank balance was \$32,112. The total bank balance was federally insured up to \$100,000.

**4. RECEIVABLES**

Receivables at June 30, 2000, consisted of intergovernmental and other receivables. All intergovernmental receivables are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds. Other receivables are items received that relate to the fiscal period ending June 30, 2000

**5. FIXED ASSETS**

A summary of the School's fixed assets at June 30, 2000, follows:

<b>Asset</b>	<b>Balance at June 30, 2000</b>
Furniture	\$49,511
Equipment	91,932
Subtotal	141,443
Less: Accumulated Depreciation	(20,922)
Net Fixed Assets	<u>\$120,521</u>

**6. 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. For fiscal period 2000, 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.

**HORIZON SCIENCE ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2000  
(Continued)**

**6. RISK MANAGEMENT (Continued)**

**B. Workers' Compensation**

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

**7. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The School 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 benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by 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, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the School is required to contribute 14 percent; for fiscal period 2000, 7.7 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 School's required contribution for pension obligations to SERS for the fiscal period ended June 30, 2000 was \$1,499 and 88.6 percent has been contributed for fiscal period 2000. \$171 representing the unpaid contribution for fiscal period 2000, is recorded as a liability.

**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 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 School is required to contribute 6 percent; 12 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 School's required contribution for pension obligations to STRS for the fiscal period ended June 30, 2000 was \$42,841.

**HORIZON SCIENCE ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2000  
(Continued)**

**7. DEFINED BENEFIT PENSION PLANS (Continued)**

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2000, the School has no employees or members of the governing board who contribute to Social Security.

**8. 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.

For STRS, all benefit recipients are required to pay a portion of health care costs in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The board currently allocates employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. For the School, this amount equaled \$24,481 during the 2000 fiscal period.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, 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 period, employer contributions to fund health care benefits were 6.3 percent of covered payroll.

**9. 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%. For fiscal period 2000, premiums were \$453.06 for family coverage, \$225.22 for dependent only coverage, and \$154.08 for single coverage per employee per month, respectively. The School has also contracted with private carriers to provide dental. As with medical benefit premiums, the School pays 60% of the monthly premium and the employee is responsible for the remaining 40%. Not all employees utilize these benefits.

**10. CAPITALIZED LEASES - LESSEE DISCLOSURE**

During fiscal period 2000, 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. The capital leases have been recorded at the present value of the future minimum lease payments as of the inception date.

**HORIZON SCIENCE ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2000  
(Continued)**

**10. CAPITALIZED 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, 2000.

<u>Fiscal Period Ending June 30,</u>	<u>Lease Payments</u>
2001	\$12,905
2002	13,862
2003	11,127
2004	5,654
2005	2,599
Total Minimum Lease Payments	46,147
Less: Amount Representing Interest	(8,580)
Present Value of Minimum Lease Payments	<u>\$37,567</u>

**11. OPERATING LEASES - LESSEE DISCLOSURE**

On August 19, 1999, the School entered into a Lease Agreement with JRB Development Ltd. (managed by B & A Realty) 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. As part of the lease agreement, the School also agreed to pay construction/modification costs that exceeded \$342,600 plus accrued interest between the completion date and July 1, 2001. Construction costs exceeded that amount by \$284,510, with accrued interest of \$55,377. The School will begin repaying these amounts in fiscal year 2002. Under generally accepted accounting principles, the School recognizes these lease expenses on a straight line basis. Future rental payments, including excess construction cost payments, are as follows:

<u>Fiscal Period Ending June 30,</u>	<u>Lease Expense</u>	<u>Lease Cash Payments</u>
2001	\$305,249	\$196,624
2002	305,249	363,566
2003	305,249	380,071
2004	305,249	380,067
Future Rental Payments	<u>\$1,220,996</u>	<u>\$1,320,328</u>



**HORIZON SCIENCE ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2000  
(Continued)**

**12. NOTES PAYABLE**

The School borrowed funds for operations throughout the fiscal period. The following is a summary of that activity:

<b>Notes:</b>	<b>Issued</b>	<b>Payments</b>	<b>Balance June 30, 2000</b>
13.90% Newcourt Financial	\$33,701	(\$7,002)	\$26,699
10.73% National City	35,000	(3,659)	31,341
Total	\$68,701	(\$10,661)	\$58,040

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

<b>Fiscal Period Ending June 30,</b>	<b>Newcourt Financial</b>		<b>National City</b>		<b>Total Payments</b>
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	
2001	\$9,222	\$3,138	\$6,002	\$3,074	\$21,436
2002	10,589	1,771	6,679	2,397	21,436
2003	6,888	323	7,432	1,644	16,287
2004	0	0	8,270	806	9,076
2005	0	0	2,958	66	3,024
Total	\$26,699	\$5,232	\$31,341	\$7,987	\$71,259

The loan from Newcourt Financial is collateralized by certain computer equipment (Note 14). The loan from National City is uncollateralized.

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

**13. PERSONAL LOANS PAYABLE**

The school received personal loans from Board Members and Administrators 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:

**HORIZON SCIENCE ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2000  
(Continued)**

**13. PERSONAL LOANS PAYABLE (Continued)**

Loans	Payments	Balance June 30, 2000
\$71,885	(\$32,300)	\$39,585

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

**14. CAPITAL LOANS PAYABLE**

Employees of the School, Board Members, and other individuals purchased computers on behalf of the School. The School, still owes those individuals for the computers they purchased. The loan repayment is not scheduled. The school will repay these loans when funds are available. These loans are uncollateralized. The following is a summary of this activity:

Loans	Payments	Balance June 30, 2000
\$33,701	\$0	\$33,701

**15. STATE SCHOOL FUNDING DECISION**

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to the School District. During the fiscal period ended June 30, 2000, the School received \$688,749 of school foundation support. Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State legislature in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State has appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. As of December 1, 2000, the Ohio Supreme Court has not rendered an opinion on this issue. The decision of the Court of Common Pleas in Perry County has been stayed by the Ohio Supreme Court, and, as such, school districts are still operating under the laws that the Common Pleas Court declared unconstitutional.

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

**HORIZON SCIENCE ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2000  
(Continued)**

**16. 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 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 School at June 30, 2000.

**B. Litigation**

The School's management is of the opinion that claims and legal proceedings will not have a material effect, if any, on the financial condition of the School.

**17. TAX EXEMPT STATUS**

The School completed their application and filed for tax exempt status under 501(c)(3) of the Internal Revenue Code on August 6, 1999 and was approved for tax exempt status on October 31, 2000.

**18. GOING CONCERN**

The School's significant operating losses raise substantial doubt about the ability to continue as a going concern. The school has obtained significant financing (notes 12 through 14) from private sources through 6-30-00. The school's ability to continue as a going concern relies significantly on these sources. The School obtained an additional \$100,984 in personal loans during July, August, and September of 2000. The School paid \$1,000 of the personal loans outstanding on June 30, 2000 in August. The School's management is of the opinion that these financing sources will be available through the next fiscal year.

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

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

We have audited the financial statements of Horizon Science Academy, Franklin County, Ohio (the School), for the fiscal period ended August 6, 1999 through June 30, 2000, and have issued our report thereon dated December 1, 2000, wherein we expressed substantial doubt about the School's ability to continue as a going concern. We conducted our audit in accordance with generally accepted auditing standards 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2000-10625-001 and 2000-10625-002. We also noted certain immaterial instances of noncompliance that we have reported to management of the School in a separate letter dated December 1, 2000.

### 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 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. The reportable conditions are described in the accompanying schedule of findings as items 2000-10625-003 through 2000-10625-009.

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 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 management of the School in a separate letter dated December 1, 2000.

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

**JIM PETRO**  
Auditor of State

December 1, 2000

**HORIZON SCIENCE ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2000**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2000-10625-001**

Ohio Revised Code 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 loans with National City and Newcourt Financial. The School also has many personal loans from individuals. These loans are not evidenced by notes and did not mature by fiscal year end.

We recommend that the School comply with the aforementioned code section.

**FINDING NUMBER 2000-10625-002**

Ohio Admin. Code, Section 117-2-01 states that each community school is required to employ the uniform system of accounting (USAS) prescribed in sections 117-2-02 to 117-2-21.

The School did not use USAS nor a system meeting the minimum USAS requirements.

We recommend the School begin processing transactions on their computerized system, which utilizes USAS.

**Material Weaknesses**

**FINDING NUMBER 2000-10625-003**

**Bank Reconciliations**

Monthly bank to book reconciliations were not performed.

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 Accountant perform monthly bank reconciliations. 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 for review. In addition, the reconciliation should be provided to the Board for monitoring purposes.

**HORIZON SCIENCE ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2000  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**Material Weaknesses (Continued)**

**FINDING NUMBER 2000-10625-004**

**Payroll**

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

- Documentation was not provided in the minutes for new hires and established pay rates.
- Leave forms were not maintained indicating leave accruals or leave time taken during the fiscal period.

Failure to establish a favorable control environment could result in overpayments or unauthorized payments.

The following procedures should be applied to help ensure a favorable control environment:

- Approval through the Board of Education to hire all employees of the School;
- Approval through the Board of Education of all pay rates as well as increases;
- Review process to ensure all employees' gross wages as paid agree to the approved pay rate;
- 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;
- Review process of attendance of salaried employees; and
- Maintain records for employees showing leave accrued and leave used and documentation that the records are reviewed by the Director.

**FINDING 2000-10625-005**

**Purchasing Cycle**

The following control weaknesses were noted in the purchasing process control environment:

- There was no prior written authorization of purchases by the Director.
- Invoices, copy of the checks, and any other pertinent information were not filed together.
- The invoice was not initialed by the receiver before payment of the invoice.
- No review process is in place by management that the expenditure was appropriately posted to the proper account.
- Unused checks were not secured in a locked area.

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 school has implemented policies and procedures relating to purchasing controls, but are not following their established procedures.



**HORIZON SCIENCE ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2000  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**Material Weaknesses (Continued)**

**FINDING 2000-10625-005 (Continued)**

**Purchasing Cycle (Continued)**

A favorable control environment for the processing of non-payroll disbursements may include, but are 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) prior to authorization for payment;
- Detailed review of the invoice and supporting documentation indicating descriptions of the goods/services received and documentation on the invoice the goods/services were received ("okay to pay");
- 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
- Storage of unused checks should be maintained in a secure location.

**FINDING NUMBER 2000-10625-006**

**Receipts Cycle**

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

- Adequate supporting documentation was not maintained for receipts.
- No review of the School's receipts prepared by the Accountant was documented by the Director.

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, including direct deposit advices.
- Receipt activity should be reviewed by the Director and this review documented.
- Document comparison of cash received versus contract amounts for grants and foundation payments.

**HORIZON SCIENCE ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2000  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**Material Weaknesses (Continued)**

**FINDING NUMBER 2000-10625-007**

**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 of throughout the fiscal period
- 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.

To maintain adequate safeguards over fixed assets, and to reduce the risk that the School's assets will be misstated, we recommend:

- The Board of Education develop and implement procedures to be performed throughout the year, for the recording and updating of fixed assets. These procedures should include tagging all assets meeting the capitalization criteria. Further, addition and disposal forms should be completed and approved by management when assets are acquired or disposed. This information should then be entered on the fixed asset accounting system, recording such information as the tag number, a description of the item, the cost, the acquisition date, location and any other supporting documentation.
- The Board of Education develop and implement procedures for performing periodic(annual) physical inventories. The physical inventories can be performed by submitting a list of all fixed assets recorded to each location and having individuals responsible for that location perform the inventory of all assets in that location. The assets in each location should be compared to the listing provided, and any assets no longer used should be deleted and any assets included on the listing should be added. Any significant deficiency should be investigated and documented accordingly.

**FINDING NUMBER 2000-10625-008**

**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.

**HORIZON SCIENCE ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2000  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**Material Weaknesses (Continued)**

**FINDING NUMBER 2000-10625-008 (Continued)**

**Monitoring Control System (Continued)**

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.

**FINDING NUMBER 2000-10625-009**

**Debt**

The School has loans outstanding with individuals and financial institutions and capital leases with several organizations. The School did not maintain debt agreements, supporting documentation for proceeds or payments and amortization schedules for this debt activity.

The lack of maintaining the appropriate documentation for debt could lead to errors in payment and possible disagreements in amounts owed, especially concerning the personal loans.

We recommend the School maintain all documentation related to each debt issuance. In addition, all debt issuance should be approved by the Board.





STATE OF OHIO  
OFFICE OF THE AUDITOR  

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**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  
JANUARY 16, 2001**