



**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2001



**Auditor of State
Betty Montgomery**

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report	1
Balance Sheet as of June 30, 2001	3
Statement of Revenues, Expenses, and Changes in Accumulated Deficit For the Year Ended June 30, 2001	4
Statement of Cash Flows for the Year Ended June 30, 2001	5
Notes to the Financial Statements	7
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	17
Schedule of Findings	19
Schedule of Prior Year Findings	27

This page intentionally left blank.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Horizon Science Academy of Cleveland
Cuyahoga County
6000 South Marginal Road
Cleveland, Ohio 44103

To the Board of Trustees:

We were engaged to audit the accompanying financial statements of the Horizon Science Academy of Cleveland, Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2001, as listed in the table of contents. These financial statements are the responsibility of the School's management.

The School did not provide adequate documentation to support the amounts reported as cash and cash equivalents on the balance sheet. The accuracy of the outstanding check listing could not be verified to original documentation and the records were not maintained in a manner which supported the amounts recorded as outstanding as of June 30, 2001.

The fixed assets reported amounts, as described in Note 5, included, \$1,316,081 in construction and improvement costs for the building, and \$93,028 for furniture and equipment purchased. Invoices supporting the recorded amounts for construction and building improvements were not available, furniture and equipment listings included items which were not within the capitalization threshold, and supporting documentation (purchase invoices) were not available for all items included.

The accounts payable amounts were not supported by original documentation. Invoices representing valid claims against the School were not made available.

The School did not maintain records which included all checks prepared for payments made to employees and vendors. Checks for payroll and non-payroll purposes were missing, some of the supporting documentation for payments made to employees (time cards, time sheets, employee contracts) could not be located, and not all invoices for the payment of claims by the School, were available.

Due to the condition of the financial records and the lack of supporting documentation we were unable to satisfy ourselves as to the accuracy of the notes to the financial statements.

Since the School did not maintain a complete record of all checks prepared, was not able to obtain copies of all the checks, did not maintain an accurate record of payments made, and had incomplete fixed asset records, we were unable to apply auditing procedures to satisfy ourselves as to the accuracy of the amounts recorded on the financial statements and the notes to the financial statements, the scope of our work was not sufficient for us to express, and we do not express, an opinion on these financial statements.

The School suffered a net operating loss in the amount of \$281,271 for the year ended June 30, 2001, has a working capital deficiency of \$1,067,418, and an accumulated deficit of \$18,980. Management's plan in regard to these matters is described in Note 3.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 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
Auditor of State

September 19, 2003

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**BALANCE SHEET
AS OF JUNE 30, 2001**

Assets:

Current Assets:

Cash and Cash Equivalents	\$69,981
Reimbursement Receivables	4,000
Total Current Assets	<u>73,981</u>

Non-Current Assets:

Fixed Assets (Net of Accumulated Depreciation and Amortization)	4,215,687
Total Assets	<u><u>4,289,668</u></u>

Liabilities and Equity:

Current Liabilities:

Accounts Payable	755,679
Intergovernmental Payable	230,279
Accrued Expenses	43,760
Lines of Credit	47,977
Accrued Wages and Benefits	63,704
Total Current Liabilities	<u>1,141,399</u>

Non-Current Assets:

Loans Payable	440,627
Mortgage	2,726,622
Total Non-Current Liabilities	<u>3,167,249</u>

Equity:

Accumulated Deficit	<u>(18,980)</u>
Total Liabilities and Equity	<u><u>\$4,289,668</u></u>

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

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN ACCUMULATED DEFICIT
FOR THE YEAR ENDED JUNE 30, 2001**

Operating Revenue:

Foundation Payments \$1,012,944

Operating Expenses:

Salaries 588,658

Fringe Benefits 67,454

Purchased Services 137,998

Materials and Supplies 24,054

Depreciation and Amortization 55,611

Interest Expense 145,213

Occupancy Expense 178,722

Other Operating Expenses 96,505

Total Operating Expenses 1,294,215

Operating Loss (281,271)

Non-Operating Revenue:

Federal and State Grants 69,100

Private Grants and Contributions 258,000

Investment Earnings 2,199

Rental Income 50,000

Total Non-Operating Revenue 379,299

Net Income 98,028

Retained Earnings Beginning of Year (117,008)

Retained Earnings End of Year (\$18,980)

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

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2001**

Increase/Decrease in Cash and Cash Equivalents:

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$1,182,217
Cash Payments to Suppliers for Goods and Services	(491,125)
Cash Payments to Employees for Services	<u>(609,892)</u>
Net Cash Provided By/Used For Operating Activities	<u>81,200</u>

Cash Flows from Noncapital Financing Activities:

Non-Operating Grants and Contributions Received	308,000
Proceeds from Lines of Credit	13,580
Payments of Lines of Credit	(216)
Borrowings from Officers and Employees	418,665
Repayments to Officers and Employees	<u>(85,207)</u>
Net Cash Provided By Noncapital Financing Activities	654,822

Cash Flows from Capital and Related Financing Activities:

Payments for Capital Acquisitions	(705,141)
Purchase of Building	(2,800,000)
Mortgage on Building	2,745,000
Payment of Mortgage	<u>(18,378)</u>
Net Cash Used for Capital and Related financing Activities	(778,519)

Cash Flows from Investing Activities:

Interest Earned on Investments	2,199
Rental Income	<u>50,000</u>
Net Cash Provided by Investing Activities	52,199

Net Increase/Decrease in Cash and Cash Equivalents	9,702
Cash and Cash Equivalents Beginning of the Year	<u>60,279</u>
Cash and Cash Equivalents End of the Year	<u><u>\$69,981</u></u>

(Continued)

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA 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 \$(281,272)

Adjustments to Reconcile Operating Loss to

Net Cash Provided By Operating Activities:
Depreciation and Amortization 55,611

Changes in Assets and Liabilities:

Increase in Accounts Receivable (4,000)
Increase in Accounts Payable 70,708
Increase in Accrued Wages and Benefits 46,220
Increase in Accrued Expenses 43,760
Increase in Intergovernmental Payable 150,173

Total Adjustments 306,861

Net Cash Used for Operating Activities \$81,200

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

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED FOR THE YEAR ENDED JUNE 30, 2001**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Horizon Educational Services Incorporated (HESI) is a non-profit corporation established pursuant to Ohio Rev. Code Chapter 1702. It was granted 501(c)(3) status by the Internal Revenue Service on January 26, 1999. Management of HESI is not aware of any course of action or series of events that have occurred that might adversely affect this tax exempt status. HESI created the Horizon Science Academy of Cleveland (the School) as permitted under Ohio Revised Code Chapter 3314 to address the needs of students grades seven through twelve. 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 by the State Board of Education for a period of five years commencing September 1999.

Subsequent to June 30, 2001 Horizon Educational Services Incorporated filed, with the Secretary of State, the necessary documentation to do business as the Horizon Science Academy of Cleveland.

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 18 personnel who provide services to 206 students. Three members of the Board of Trustees are also on the Board of Trustees of the Horizon Science Academy of Columbus.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Horizon Science Academy of Cleveland have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Government 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

The School uses enterprise accounting to track and 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 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 CLEVELAND
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED FOR THE YEAR ENDED JUNE 30, 2001
(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. 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. 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 dates received. The School maintains a capitalization threshold of three hundred dollars. The School does not possess any infrastructure.

Improvements are capitalized. The cost 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.

Fixed assets 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.

<u>Assets</u>	<u>Years</u>
Building & leasehold improvements	39
Furniture and equipment	10

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Intergovernmental Revenues

The School currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid Program ("DPIA"), and the State Special Education 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 \$150,000 to offset start-up costs of the School. The School received \$50,000 during fiscal year 2001. Revenue received from this program is recognized as non-operating revenue on the accompanying financial statements. Grants and entitlements are recognized as non-operating revenue in the accounting period in which they were earned and become measurable.

F. Cash and Cash Equivalents

To improve cash management, all cash received is pooled in a central bank account. For presentation on the balance sheet and statement of cash flows, investments with an original maturity of three months or less are considered cash equivalents.

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.

H. Use of 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. COMPLIANCE, ACCOUNTABILITY AND FINANCIAL OUTLOOK

The School had an accumulative deficit of \$18,980 and \$488,604 of debt outstanding in addition to the mortgage as of June 30, 2001. The School is currently seeking additional grants from both state and federal sources and making changes to its operations to alleviate the debt load.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

4. DEPOSITS AND INVESTMENTS

At June 30, 2001, the carrying amount of deposits was \$69,981. The bank balance was \$111,757. The total bank balance was federally insured.

5. FIXED ASSETS

A summary of the School's fixed assets at June 30, 2001, follows:

Building and Improvements	\$4,175,592
Furniture and Equipment	93,028
School Buses	<u>5,541</u>
Subtotal	4,274,161
Less accumulated depreciation	<u>58,474</u>
Net Fixed Assets	<u><u>\$4,215,687</u></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 year 2001, the School contracted with the Harcum-Hyre Insurance Agency, Inc. to provide property and general liability insurance.

Professional liability is protected by Nationwide Agribusiness Insurance Company with a \$2,000,000 single occurrence limit and \$5,000,000 aggregate and a \$1,000 deductible.

B. Workers' 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.

C. Employee Medical

The School has contracted with a Medical Mutual through COSE to provide employee medical/surgical benefits. For fiscal year 2001, the employees' premiums were \$191 for two person coverage, and \$95 for single coverage per employee per month.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

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 employees 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 of annual covered payroll; for fiscal year 2001, 4.2 percent was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by SERS's Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The School's required contribution for pension obligations to SERS for the fiscal period ended June 30, 2001 was \$9,192. \$4,215 representing the unpaid contribution for fiscal period 2001, 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 14 percent; 6 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 year ended June 30, 2001 was \$44,353.

C. Social Security System

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/State Teachers Retirement System. As of June 30, 2001, the school has three employees or members of the governing board who contribute to Social Security.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

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 4.5 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 \$21,015 during the 2001 fiscal year.

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 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, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium. After the allocation for the basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits.

For this fiscal year, employer contributions to fund health care benefits were 9.8 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2001, the minimum pay has been established at \$12,400. For the School, the amount paid attributed to health care was \$23,770 for the fiscal year 2001.

The surcharge added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level of the health care fund. The target level of 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 health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

9. BUILDING PURCHASE

Horizon Educational Services Incorporated (HESI) entered into a capital lease on November 30, 2000 to purchase a parcel of land containing two buildings. One building is 40,880 square feet and will be used for School operations. The other building is 10,000 square feet and is presently occupied by Ohio Motorists Association (OMA). The total purchase price is \$2,800,000 at a 10% interest rate payable monthly over a period of twenty years. The first payment is \$55,000 due January 1, 2001. Monthly payments starting February 1, 2001 are \$26,490. The OMA currently pays \$10,000 a month rent for the building where they are located. HESI pays the difference between the \$26,490 and the \$10,000 rent paid by the OMA which is \$16,490. If the OMA fails to pay its rent, HESI is still obligated to pay the entire \$26,490. As of the date of this report, the School is current on all lease payments.

The current owner of the building may at any time after September 1, 2005 issue a Final Closing Notice, advising HESI of a date not earlier than ninety days after the delivery date of the Final Closing Notice on which the current owner is prepared to transfer title to the premises to HESI in return for payment of the full balance for the purchase price. As part of the agreement the current owner agreed to contribute \$250,000 to HESI to fund improvement to the building.

10. CONTINGENCIES

A. Grants

The School received financial assistance from federal 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, 2001.

B. Litigation

A suit was filed in Franklin County common Pleas Court on May 14, 2001 alleging Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. On April 21, 2003 the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case is set for oral argument on November 18th, 2003.

11. STATE SCHOOL FUNDING DECISION

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

12. PURCHASED SERVICES

Purchased Services include the following:

Insurance	\$ 9,375
Attorney Fees	57,018
Advertising	63,805
Temporary Help	<u>7,800</u>
 Total Purchased Services	 <u>\$137,998</u>

13. LINES OF CREDIT

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

Notes:	Credit Limit	Balance FOR THE YEAR ENDED JUNE 30, 2001
12.50% Key Bank	\$20,000	\$19,245
9.00% National City Bank	30,000	28,732
Total	\$50,000	\$47,977

Principal payments of \$216 were made during fiscal year 2001. Interest payments in the amount of \$6,343 were made during the year. The lines of credit are uncollateralized. These lines of credit are presented on the accompanying financial statements as current liabilities.

These lines of credit 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. 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. These loans are presented as long term debt on the accompanying financial statements. The school will repay these loans when funds are available. These loans are 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.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

15. CAPITAL LOANS PAYABLE

Employees of the School, Board Members, and other individuals purchased computers and other furniture and fixtures on behalf of the School. The School still owes those individuals for these purchases. The loan repayment is not scheduled. These loans are presented as long term debt on the accompanying financial statements. The School will repay these loans when funds are available. These loans are uncollateralized.

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

16. INTERGOVERNMENTAL PAYABLE

The School has reported an Intergovernmental Payable on its balance sheet for the amount that is calculated and due by the School to the Ohio Department of Education based on the difference in actual student full-time equivalent (FTE) enrollment as determined at the end of the year, compared to the October 2000 enrollment that the School's monthly funding was based upon. The payable reflects that the School was funded at a higher estimated enrollment figure throughout the year than what the actual FTE enrollment figure was calculated to be at year end.

This page intentionally left blank.



Auditor of State Betty Montgomery

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

Horizon Science Academy of Cleveland
Cuyahoga County
6000 South Marginal Road
Cleveland, Ohio 44103

To the Board of Trustees:

We were engaged to audit the financial statements of the Horizon Science Academy of Cleveland, Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2001, and have issued our report dated September 19, 2003 in which we issued a disclaimer of opinion and noted the School suffered a net operating loss in the amount of \$281,271 for the year ended June 30, 2001, has a working capital deficiency of \$1,067,418, and an accumulated deficit of \$18,980.

Compliance

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 test of available documentation 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 2001-001 through 2001-004.

Internal Control Over Financial Reporting

In planning and performing our engagement, we considered the School's internal control over financial reporting in order to determine our procedures for the purpose of expressing our opinion on the financial statements, wherein we disclaimed an opinion, 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 2001-005 through 2001-011.

**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 2001-005-through 2001-010 to be material weaknesses.

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
Auditor of State

September 19, 2003

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2001**

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

FINDING NUMBER	2001-001
-----------------------	-----------------

Financial Report Filing

Ohio Revised Code Section 117.38 provides that each public office, other than state agencies, shall file a financial report for each fiscal year. The report shall be certified by the proper offices or board and if GAAP financial statements are filed, the report shall be filed within one hundred and fifty days of the end of the fiscal year.

The school filed its financial statements for the year ended June 30, 2001 on February 15, 2002.

We recommend the school organize its financial recordkeeping, develop tickler files as a reminder of filing dates and take all other steps necessary to file its financial statements within the prescribed time period. If these financial statements are not filed within the prescribed timetable the School may be assessed a late filing penalty.

FINDING NUMBER	2001-002
-----------------------	-----------------

Personal Loans

Ohio Revised Code Section 3314.08(J) requires that all debt of the School must mature no later than the end of the fiscal year.

The School received personal loans from board members and administrators throughout the year to continue operations. Also, the School borrowed funds from financial institutions in the form of lines of credit which were contrary to this Section of the Revised Code as of June 30, 2001.

We recommend the School review this and other Revised Code sections applicable to the community school and be vigilant in the application of the requirements. The Ohio Revised Code was amended by House Bill 364 in 2003. This amendment removed the requirement that all debt of the School must mature no later than the end of the fiscal year.

FINDING NUMBER	2001-003
-----------------------	-----------------

Board Meetings

Ohio Revised Code Section 121.22 requires schools to take all official actions and to conduct all deliberations upon official business in open meetings, unless the subject matter is specifically exempted by law. This section further outlines that schools must establish a reasonable method by which any person can determine the time and place of all regular meetings and that the minutes of the meetings or special meetings be promptly prepared, filed, maintained, and approved by the governing authority.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

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

FINDING NUMBER	2001-003 (Continued)
-----------------------	-----------------------------

Board Meetings (Continued)

Pursuant to the School's contract with the Ohio Department of Education, the School was required to hold one meeting per year. During the fiscal year, the School held two meetings, one of which was the annual organizational meeting.

The only meeting which was evidenced by a minute record of the Board was the annual organizational meeting. We recommend all meetings have a minute record maintained.

FINDING NUMBER	2001-004
-----------------------	-----------------

Uniform School Accounting System (USAS)

Ohio Revised Code Section 3314.03(A)(8) provides that each contract entered into under section 3314.02 of the Revised Code between a sponsor and the governing authority of a community school shall specify the financial records of the school be maintained in the same manner as are the financial records of a school district. Each community school is required to follow the Uniform School Accounting System (USAS) as prescribed in Sections 117-2-02 to 117-2-21 of the Ohio Administrative Code.

The school failed to maintain and did not maintain financial records in the prescribed format.

We recommend the school review the agreed upon requirements of the Community School Contract. The above noted sections of the Ohio Revised Code and the Ohio Administrative Code which are part of the contract are very specific as to this requirement. The School has no options in the implementation and use of this system.

FINDING NUMBER	2001-005
-----------------------	-----------------

Accurate Balances as of the Balance Sheet Date

Management is responsible for maintaining records which accurately record the financial position of the School. During this engagement, we were unable to verify the accuracy of the accumulated deficit as of June 30, 2001. The financial statements, as prepared, included assets which were not the property of the School, liabilities which were not the financial responsibility of the School, donations which were not made to the School, recorded revenues which could not be verified, and expenses which were not supported by proper documentation.

Without accurate and complete presentation the financial position of the School cannot be determined. Also, in the absence of complete and accurate records, the School could experience losses, lose assets, and have debt amounts in excess of their ability to repay.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

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

FINDING NUMBER	2001-005 (Continued)
-----------------------	-----------------------------

Accurate Balances as of the Balance Sheet Date (Continued)

It is imperative that accurate and complete records which exhibit true balances be maintained. If necessary, the School management should seek training sessions for financial statement preparation, read and study the available authoritative literature, and develop a program of recordkeeping which will provide assurance of financial statement accuracy and integrity.

FINDING NUMBER	2001-006
-----------------------	-----------------

Condition of Accounting Records

Management is responsible for implementing and maintaining a system of controls designed to enable management to determine the accuracy of financial transactions of the School. Also, management is responsible for developing and maintaining complete and accurate financial records. In lieu of complete and accurate financial records, we noted that the records consisted of the following:

- Monthly bank statements, some canceled checks, some invoices which were received from vendors for items purchased, ADP records of most payrolls, and GAAP basis financial statements;
- There were no records of revenues received;
- Check registers were prepared, after the end of the fiscal year, from the debits recorded on the bank statements and canceled checks;
- The files of canceled checks were incomplete;
- Supporting documentation for non-payroll expenditures was lacking or non-existent;
- No records existed of Board approval for employee salary and/or wage rates;
- Fixed asset records did not exist;
- Monthly bank reconciliations were not prepared;
- There was no evidence of the Board reviewing or approving any of the financial activity of the School; and
- Footnotes to the financial statements as prepared are incomplete and do not contain all of the disclosures required by Government Accounting Standards Board (GASB).

We recommend the School develop and maintain a system of controls and financial records which exhibit the financial position of the School, and at a minimum, consist of the following:

- Revenue ledgers which record all sources of monies received, purpose of the receipt, and from whom received;
- Sequentially numbered duplicate receipts prepared for all monies received;
- Copies of all deposit transactions to the bank;
- Reconciliations of bank deposits to duplicate receipts and revenue ledgers;
- Development of a system to document approvals for expenditures made;
- Expenditure ledgers which record all expenditures of monies and the purpose of the expenditure;

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

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

FINDING NUMBER	2001-006 (Continued)
-----------------------	-----------------------------

Condition of Accounting Records (Continued)

- Files which consist of the original invoices received for all expenditures made which cross reference to the checks prepared for the payment of the invoices (if invoices are not filed with the canceled checks);
- Files of all canceled checks returned from the bank;
- Complete and accurate listings of all outstanding checks at the end of each month;
- Complete and accurate monthly bank to book reconciliations;
- Preparation of monthly financial statements;
- Development of Board policies which enumerate and describe the financial records to be maintained by the School;
- Development by management of a complete system of controls to help ensure the completeness, accuracy, and validity of the School's financial transactions;
- Evidence of review of the financial statements and supporting documentation by the Board and management; and,
- Footnotes to the financial statements should disclose information concerning donations to the school, related party transactions, full disclosure of loans made to the school, and all other disclosures as required by the Government Accounting Standards Board.

The School management has available numerous sources of information describing the process of internal controls, recordkeeping requirements and reporting procedures. It is the responsibility of management to ensure that all responsible parties have access to this literature and training sessions.

FINDING NUMBER	2001-007
-----------------------	-----------------

Development and Implementation of Purchasing Cycle Controls

The School does not require written authorization prior to a purchase being initiated. In addition, verbal authorizations obtained by management are not regularly documented (e.g. as part of the minutes). The School does require the use of check request forms for payment for goods and services. We noted that 25 out of 60 transactions did not have the required check request forms attached. Formal purchase requisitions, purchase orders, or tally sheets were not utilized on a regular basis and there was no process in place to match invoices, purchase orders, tally sheets and checks prior to making payment. Monthly financial statements were not prepared during the year.

We recommend the School utilize purchase requisitions and/or purchase orders along with check requests and obtain proper authorization before committing school funds. School personnel should provide written acknowledgment when goods and services are received. Management should compare invoices, purchase orders, and receiving acknowledgments prior to authorizing payment. The School should also implement a policy requiring Board approval of all expenditures over an approved dollar amount (for example \$1,000). Board approval of monthly financial statements and the implementation of an accounting package would provide the necessary financial information to allow the School to make informed financial decisions.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

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

FINDING NUMBER	2001-008
-----------------------	-----------------

Developing and Implementing an Effective Monitoring Control System

Monitoring controls are comprised of regular management and supervisory activities established to oversee whether management's objectives are being achieved. Effective monitoring controls should assist management in assessing the quality of internal control performance over time. This process involves assessing the design and operation of controls on a timely basis and taking necessary corrective actions. Monitoring controls should assist management in identifying unexpected results and/or possible misstatements.

Some effective monitoring controls include:

- Regular review of monthly financial statements;
- Review of revenues and expenses with independently accumulated information (budgets, past performances, peer group representatives, etc.);
- Review of large or unusual transactions;
- Identification of unusual fluctuations;
- Review of items which have been outstanding for extended periods of time (outstanding check listing for payroll and non payroll transactions);
- Monitoring compliance with grant agreements;
- Ensuring that an adequate segregation of duties exists; and,
- Review of monthly bank reconciliations by someone independent of their preparation.

Financial reports are not prepared or presented to the Board on a monthly basis. In addition, several incompatible job functions were being performed by the same employees. There was no evidence that monthly bank reconciliations were reviewed by someone independent of their preparation.

The lack of effective monitoring controls could lead to the misallocation or misstatement of school funds, expenditure of funds contrary to the directives of the governing board, non-compliance with federal or state laws or regulations, which could result in a loss of funding from these sources, and errors or irregularities occurring in financial transactions affecting the bank reconciliations which go undetected.

We recommend that management prepare monthly financial statements and submit them to the Board at each regularly scheduled meeting. The Board should then review these financial statements and when satisfied as to their accuracy approve them through the minute records. In addition, management should ensure that any reports required by the grantor agencies, per the terms of grant agreements, are completed and filed with the respective grantor agencies in a timely manner. Management should also ensure that proper segregation of duties exists, including an independent review of the monthly bank reconciliations.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

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

FINDING NUMBER	2001-009
-----------------------	-----------------

Development and Implementation of Payroll Processing Procedures

Procedures for payroll disbursements should include, but are not limited to:

- Approval by the Board of Trustees of all pay rates;
- Comparison of all employees' gross wages paid with the approved pay rates as documented in employee contracts;
- Requiring hourly employees to complete and sign time sheets for review and approval by a supervisor; and,
- Approval and tracking of sick time usage and balances for each employee.

We noted the personnel files for 17 out of 30 employees tested, did not include signed employment contracts and five personnel files could not be located. Evidence of formal approval of employment contracts or hourly rates paid to employees was not documented.

The Board should formally approve employment contracts or pay scales for all employees. Without this approval, it is possible that employees could be paid amounts which were not in accordance with the direction of the Board. Also, we recommend the Board monitor the amounts paid to employees.

FINDING NUMBER	2001-010
-----------------------	-----------------

Fixed Assets

We noted the following control weaknesses over fixed assets:

- A fixed asset accounting system, which maintains a complete fixed asset listing by location, with tag or other identification numbers and other pertinent information had not been developed;
- The School had not developed and implemented procedures to record assets as additions when purchased and deletions when disposed of through the year; and,
- A listing of fixed assets which includes assets which the School owns.

Failure to prepare timely reports or employ adequate controls over the acquisition and disposal of fixed assets could result in misappropriation of assets and/or misstatement of recorded amounts on the financial statements.

To maintain adequate safeguards over fixed assets and to reduce the risk that the School's assets may be misstated, we recommend management develop and implement procedures to be performed throughout the year for the recording and updating of fixed assets. These procedures should include tagging all fixed assets meeting the capitalization threshold. Further, addition and disposal forms should be completed and approved by management when assets are acquired or retired. This information should then be entered into the fixed asset accounting system and include such information as the tag number, location of the asset, description of the item, cost, acquisition date, and any other pertinent information. Periodic physical inventories should be performed, and the fixed assets listed on the accounting system should be compared to the items on hand and any discrepancies should be investigated.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

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

FINDING NUMBER	2001-011
-----------------------	-----------------

Establishing an Audit Committee

The School should establish an audit committee. The National Commission on Fraudulent Financial Reporting (known as the Treadway Commission), has stated that an audit committee can serve as “informed, vigilant, and effective overseers of the financial reporting process and internal controls.” An audit committee should perform the following functions:

- Periodically review the process used to prepare interim financial information submitted to the Board;
- Review audit results;
- Assure that audit recommendations are appropriately addressed; and
- Serve as liaison between management and independent auditors.

Generally accepted auditing standards require that auditors communicate the following information to the audit committee:

- Auditors professional responsibility under generally accepted auditing standards;
- Selections of accounting policies;
- Sensitive accounting estimates;
- Significant audit adjustments;
- Disagreements with management; and
- Difficulties encountered in performing the audit.

The audit committee can include members of the Board of Trustees or the current finance committee. However, it is preferable to include representation that is independent from officials or management. The committee could include professionals knowledgeable in the School’s operations and in accounting, such as attorneys and bankers. The audit committee should meet regularly (perhaps quarterly) to monitor the School’s financial reporting and control activities, and should meet with the independent auditors before and after each audit.

The School establish an audit committee at their March 16, 2002 Board Meeting.

This page intentionally left blank.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2000**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Plan Taken; or Finding No Longer Valid; Explain:
2000-10818-001 2000-10818-002	Debt – School had outstanding debt without loan agreements and ORC Section 3314.08(J) Debt Maturity	No	Partially Corrected- Reissued as 2001-002
2000-10810-003	Monthly Bank Reconciliations	No	Not Corrected - Reissued as part of 2001-006
2000-10818-005	Development and Implementation of Purchasing Cycle Controls	No	Not Corrected - Reissued as 2001-007
2000-10818-004	Development and Implementation of Monitoring Controls	No	Not Corrected - Reissued as 2001-008
2000-10818-006	Development and Implementation of Payroll Cycle Controls	No	Not Corrected - Reissued as 2001-009
2000-10818-007	Development and Implementation of Fixed Asset Accounting System	No	Not Corrected – Reissued as 2001-010

This Page is Intentionally Left Blank.



**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 CLEVELAND

CUYAHOGA 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
NOVEMBER 18, 2003**