



**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2000



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Board of Trustees:

We have audited 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, 2000, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Horizon Science Academy of Cleveland, Cuyahoga County, Ohio, as of June 30, 2000, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, the School has sustained significant operating losses, accumulated deficits and has significant loans outstanding.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2001 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

November 29, 2001

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HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY
BALANCE SHEET
AS OF JUNE 30, 2000

ASSETS

Current Assets:	
Cash and Cash equivalents	\$ 60,279
Non-Current Assets:	
Fixed Assets (Net of Accumulated Depreciation)	<u>64,193</u>
Total Assets	<u>\$ 124,472</u>

LIABILITIES AND EQUITY

Current Liabilities:	
Accounts Payable	\$ 2,108
Intergovernmental Payable	80,106
Lines of Credit	34,613
Accrued Wages and Benefits	<u>17,484</u>
Total Current Liabilities	134,311
Non-Current Liabilities:	
Loans Payable	107,169
Equity:	
Accumulated Deficit	<u>(117,008)</u>
Total Liabilities and Fund Equity	<u>\$ 124,472</u>

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

**HORIZON SCIENCE ACADEMY OF CLEVELAND
 CUYAHOGA COUNTY
 STATEMENTS OF REVENUES,
 EXPENSES, AND CHANGES IN ACCUMULATED DEFICIT
 FOR THE YEAR ENDED JUNE 30, 2000**

Operating Revenues:	
Foundation Payments	\$ 818,479
Other State Funding	5,000
Other Operating Revenues	<u>12,985</u>
Total Operating Revenue	<u>836,464</u>
Operating Expenses:	
Salaries	457,382
Fringe Benefits	80,776
Purchased Services	51,515
Materials and Supplies	186,191
Depreciation	3,201
Occupancy Expenses	149,228
Other Operating Expenses	<u>34,448</u>
Total Operating Expenses	<u>962,741</u>
Operating Loss	(126,277)
Non-Operating Revenues	
Federal Grants	69,642
Net Loss	<u>(56,635)</u>
Accumulated Deficit at Beginning of Year	<u>(60,373)</u>
Accumulated Deficit at End of Year	<u>\$ (117,008)</u>

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, 2000**

Cash Flows from Operating Activities:	
Cash Received from State of Ohio	\$ 903,585
Cash Received from others	12,985
Cash Payments to Suppliers for Goods and Services	(419,274)
Cash Payments to Employees for Services	<u>(520,674)</u>
Net Cash Used for Operating Activities	(23,378)
Cash Flows from Noncapital Financing Activities:	
Federal Grants Received	69,642
Proceeds from Lines of Credit	35,762
Payments of Lines of Credit	(1,149)
Borrowings from Officers and Employees	76,763
Repayment to Officers and Employees	<u>(94,934)</u>
Net Cash Provided by Noncapital Financing Activities	86,084
Cash Flows from Capital and Related Financing Activities:	
Payments for Capital Acquisitions	(2,598)
Net Increase in Cash and Cash Equivalents	60,108
Cash and Cash Equivalents at the Beginning of the Year	<u>171</u>
Cash and Cash Equivalents at the End of the Year	<u><u>\$ 60,279</u></u>
Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating Loss	\$ (126,277)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation	3,201
Changes in Assets and Liabilities:	
Increase in Accounts Payable	2,108
Increase in Accrued Wages and Benefits	17,484
Increase in Intergovernmental Payable	<u>80,106</u>
Total Adjustments	<u>102,899</u>
Net Cash Used for Operating Activities:	<u><u>\$ (23,378)</u></u>

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

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**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY
NOTES TO FINANCIAL STATEMENT
JUNE 30, 2000**

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 is not aware of any course of action or series of events that have occurred that might adversely affect the School's tax exempt status. 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.

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 2 noncertified and 14 certified full time teaching personnel who provide services to 182 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 FINANCIAL STATEMENT
JUNE 30, 2000**

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	20
Furniture and equipment	10

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY
NOTES TO FINANCIAL STATEMENT
JUNE 30, 2000**

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 2000. 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 principals 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 accumulated deficit of \$117,008 and \$141,782 of debt outstanding as of June 30, 2000. It also had a net loss of \$56,635 for the year ended June 30, 2000. The net loss and accumulated deficit are the result of start up costs and operating expenses incurred by the School. For June 30, 2000 to the date of this report the School continued to experience losses and deficits. They also continued to carry substantial debt. The School is currently seeking additional grants from both state and federal sources and making changes to its operations to alleviate the losses, deficits and the need for additional debt proceeds.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY
NOTES TO FINANCIAL STATEMENT
JUNE 30, 2000**

4. DEPOSITS AND INVESTMENTS

At June 30, 2000, the carrying amount of deposits was \$60,279. The bank balance was \$76,330. The total bank balance was federally insured.

5. FIXED ASSETS

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

Furniture and Equipment	\$ 60,631
Leasehold Improvements	<u>6,763</u>
Subtotal	67,394
Less accumulated depreciation	<u>3,201</u>
Net Fixed Assets	<u>\$ 64,193</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 2000, 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 Kaiser Permanente to provide employee medical/surgical benefits. For fiscal year 2000, the employees' premiums were \$200 for family coverage, \$100 for two persons, and \$50 for single coverage per employee per month.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY
NOTES TO FINANCIAL STATEMENT
JUNE 30, 2000**

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 2000, 5.5 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 \$3,824.

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, 2000 was \$23,273.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY
NOTES TO FINANCIAL STATEMENT
JUNE 30, 2000**

7. DEFINED BENEFIT PENSION PLANS (Continued)

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, 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 \$31,027 during the 2000 fiscal year.

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 8.5% 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 2000, the minimum pay has been established at \$12,400. For the School, the amount paid attributed to health care was \$5,909 for the fiscal year 2000.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY
NOTES TO FINANCIAL STATEMENT
JUNE 30, 2000**

9. BUILDING LEASE

The landlord gave notice to terminate the lease that was disputed by the School. As a result of court mediation, the current lease ended on December 15, 2000. The rent, which previously was \$5,000 per month, increased to \$10,000 per month through November 30, 2000. The rent for the period of December 1 through December 15, 2000 was \$5,000. Utilities and insurance are billed monthly.

A new location has been found and was utilized starting with the resumption of classes after the Christmas 2000 break. See note 18.

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, 2000.

B. Litigation

The School was involved in a legal dispute with the landlord. A court hearing resulted in a Stipulated Judgment Entry and Order and the current lease being terminated prior to the original termination date. See note 9.

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

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY
NOTES TO FINANCIAL STATEMENT
JUNE 30, 2000**

11. STATE SCHOOL FUNDING DECISION

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. This decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of November 29, 2001, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such reconsideration.

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

12. PURCHASED SERVICES

Purchased Services include the following:

Insurance	\$17,816
Attorney Fees	16,638
Advertising	11,158
Security and Temporary Help	<u>5,903</u>
Total Purchased Services	<u>\$51,515</u>

**HORIZON SCIENCE ACADEMY OF CLEVELAND
 CUYAHOGA COUNTY
 NOTES TO FINANCIAL STATEMENT
 JUNE 30, 2000**

13. BEGINNING ACCUMULATED DEFICIT

At the fiscal year ended June 30, 1999 the School had an accumulated deficit in the amount of \$60,373. The accumulated deficit was caused by start up costs associated with opening the School.

14. 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 June 30, 2000
12.50% Key Bank	\$20,000	\$19,461
9.00% National City Bank	30,000	15,152
Total	\$50,000	\$34,613

No Principal payments were made during fiscal year 2000. Interest payments in the amount of \$1,149 were made during the year. The Lines of credit are uncollateralized. These lines of credit are presented on the accompanying financial statements as a 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.

15. PERONAL 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. The following is a summary of that activity:

Balance July 1, 1999	Additional Loans	Payments	Balance June 30, 2000
\$85,040	\$76,763	\$75,934	\$85,869

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 FINANCIAL STATEMENT
JUNE 30, 2000**

16. 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. The following is a summary of this activity:

Balance July 1, 1999	Additional Loans	Payments	Balance June 30, 2000
\$27,000	\$13,300	\$19,000	\$21,300

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.

17. 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 1999 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.

18. SUBSEQUENT EVENTS

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.



**STATE OF OHIO
OFFICE OF THE AUDITOR**

JIM PETRO, AUDITOR OF STATE

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**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 have audited the financial statements of the Horizon Science Academy of Cleveland, Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2000, and have issued our report thereon dated November 29, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that was required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2000-10818-001. We also noted certain immaterial instances of noncompliance that we have reported to the management of the School in a separate letter dated November 29, 2001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2000-10818-002 through 2000-10818-007.

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 2000-10818-002 and 2000-10818 -003 to be material weaknesses. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School in a separate letter dated November 29, 2001.

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.

Jim Petro
Auditor of State

November 29, 2001

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2000**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2000-10818-001
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Ohio Revised Code Section 3314.08(J) provides that a community school may borrow money to pay any necessary and actual expenses of the school in anticipation of the receipt of any portion of the payments to be received by the school pursuant to division (D) of this section. The school may issue notes to evidence such borrowing to mature no later than the end of the fiscal year in which the 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 received personal and capital loans from individuals and established lines of credit with two banks. The loans outstanding at year end totaled \$107,169 and were not evidenced by notes. The lines of credit had an outstanding balance of \$34,613 at year end.

We recommend the School limit the length of all debt instruments to meet the requirements set forth in this code section.

Finding Number	2000-10818-002
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Debt

The School had \$107,169 in loans outstanding from individuals at year end. The School did not maintain debt agreements, supporting documentation for proceeds or repayments, amortization schedules or individual records of this activity.

The lack of formal agreements and maintenance of the appropriate documented records could lead to errors in payments and possible disagreements about amounts owed.

We recommend that the School prepare written documentation for all loans which include the following:

- Identification of the individual who loaned the funds to the school;
- Date of the loan;
- Interest rate, if any;
- Maturity date;
- Date repayment will be made, and;
- Signatures of the individual who loaned the funds and a designated representative of the school.

In addition, all debt activity of the School should be approved by the Board. This approval should be recorded in the minute record of the Board.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

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

Finding Number	2000-10818-003
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Monthly Reconciliation of Bank Accounts and Timely Posting to Ledgers

Monthly reconciliation of bank activity to the financial records of the school assists in determining the accuracy and integrity of the school financial statements. The following are errors and deficiencies related to monthly reconciliations:

- Collections made by the school and deposited to the bank account, in the months of May and June, had not been recorded in the revenue ledgers;
- 38 payroll checks and 3 non payroll checks were prepared in the months of May and June which were not recorded in the expenditure records;
- Bank reconciliations had not been prepared for the months of May and June 2000 and were prepared several months late throughout the rest of the year, and;
- Cash collections were not deposited to the bank on a daily basis.

Failure to record all deposits in the revenue ledgers and all checks in the expenditure ledgers could negatively impact the accuracy and completeness of monthly financial statements which could adversely affect the ability of the Board of Trustees to monitor the financial position of the school. This could lead to the school entering into commitments for which the resources are not available. Failure to timely reconcile bank accounts and timely post revenues and expenditures to the School's ledgers could also lead to a misappropriation of assets going undetected for a long period of time.

We recommend the School record all financial activity in the ledgers as the activity occurs. In addition, monthly cash reconciliations should be prepared in a timely manner. Discrepancies should be investigated and resolved. Reconciliations should be reviewed and presented to the Board on a monthly basis. Finally, the School should make efforts to deposit all funds in its bank account within twenty four hours of receipt.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

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

Finding Number	2000-10818-004
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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 to assess 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 including budget and actual figures;
- Review of revenues and expenditures with independently accumulated information (budgets, past performance, peer group representatives, etc.);
- Review of large or unusual transactions;
- Review of items which have been outstanding for extended periods of time (outstanding check listings for payroll and nonpayroll transactions);
- Identification of unusual fluctuations;
- Monitoring compliance with grant agreements and grant reporting requirements;
- Ensuring adequate segregation of duties and;
- Review of monthly cash reconciliations by someone independent of their preparation.

Monthly financial reports are not prepared or presented to the board on a timely 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. It could also lead to non-compliance with federal or state laws or regulations resulting in a loss of funding from these sources.

We recommend management prepare monthly financial statements and submit them to the Board for their review. 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 exist, including an independent review of the monthly bank reconciliation.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

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

Finding Number	2000-10818-005
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Development and Implementation of Purchasing Cycle Controls

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

- Prior written authorization by management for all purchases;
- Review and approve tally sheets verifying that goods or services were received;
- Review of supporting documentation (original invoices) prior to authorization for payment;
- The comparison and approval of invoices, purchase orders, tally sheets and checks prior to making payment, and;
- Review expenditure postings to verify accuracy.

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). Formal purchase requisitions, purchase orders or tally sheets were not used and there was no process in place to match invoices, purchase orders, tally sheets and checks prior to making payment.

We recommend the School utilize purchase requisitions and/or purchase orders to obtain proper authorization before committing school funds. School personnel should also tally goods and services when received. Management should compare invoices, purchase orders, tally sheets and checks prior to authorizing payment. The School should also consider implementing a purchasing policy which would require the approval of the Board of all expenditures over a predetermined dollar threshold.

Finding Number	2000-10818-006
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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;
- Require hourly employees to complete and sign time sheets and have them approved by a supervisor; and
- Approval and tracking of sick and vacation time used and the balance remaining for each eligible employee.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

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

Finding Number	2000-10818-006 - (Continued)
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Development and Implementation of Payroll Processing Procedures - (Continued)

There was no documented supervisory review of employee time sheets to authenticate the accuracy and completeness of the time worked by employees nor did the employees sign the time sheets to attest to the accuracy. The School did not effectively approve or track the usage of leave time.

We recommend the Board formally approve employment contracts or pay scales for all employees. In addition, all employees, who are paid on an hourly basis, should prepare and sign their time sheets. The time sheets should then be reviewed and approved by their supervisor. Management should also review and certify final payroll for accuracy prior to distributing payroll checks. Finally, the school should also develop a system to track the accumulation and the usage of leave time.

Finding Number	2000-10818-007
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Fixed Assets

The following control weaknesses over fixed assets exist:

- A fixed asset accounting system which maintains a complete fixed assets listing, by location, with tag or other identification numbers and other pertinent 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 year, and;
- The Board has not approved a fixed asset policy.

Failure to prepare timely records or employ adequate controls over the acquisition and disposal of fixed assets could result in misappropriation of assets and/or 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:

- School personnel 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 be entered in the fixed asset accounting system, recording such information as the tag number, a description of the item, cost, acquisition date, location and any other pertinent information, and;
- School personnel develop and implement procedures for performing periodic physical inventories of fixed assets. The current listing from the fixed asset accounting system should be compared to items on hand and any discrepancies investigated.



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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
DECEMBER 18, 2001**