



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

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**STATE OF OHIO**



**HORIZON SCIENCE ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

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STATE OF OHIO  
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

35 North Fourth Street  
Columbus, Ohio 43215  
Telephone 614-466-3402  
800-443-9275  
Facsimile 614-728-7199  
www.auditor.state.oh.us

**REPORT OF INDEPENDENT ACCOUNTANTS**

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

We have audited the accompanying Balance Sheet of the Horizon Science Academy of Columbus, Franklin County, Ohio (the School) as of June 30, 2001, and the related Statement of Revenues, Expenses and Changes in Accumulated Deficit and Statement of Cash Flows for the year then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Horizon Science Academy of Columbus, Franklin County, Ohio, as of June 30, 2001, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the School will continue as a going concern. As discussed in Note 19 to the financial statements, the School's significant operating and net losses cause substantial doubt about its ability to continue as a going concern. The School has an accumulated deficit of \$623,120. Note 19 describes management's plans regarding these losses.

The Auditor of State has billed the School for services rendered for the consulting and audit services provided for fiscal year 2000, special audit services provided in 2001, and for consulting and audit services provided for fiscal year 2001. As of the date of this report, the School has been billed a total of \$25,357 and has yet to pay \$19,490. This outstanding amount has been referred to the Department of Education for collection from future foundation revenues.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 2, 2002 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.

A handwritten signature in black ink, appearing to read "Jim Petro", with a stylized, cursive script.

**JIM PETRO**  
Auditor of State

May 2, 2002

**HORIZON SCIENCE ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

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

**Assets**

**Current Assets**

Cash and Cash Equivalents	\$0
Receivables	1,546
Prepays	604
Total Current Assets	<u>2,150</u>

**Non-Current Assets**

Fixed Assets (Net of Accumulated Depreciation)	111,093
Total Non-Current Assets	<u>111,093</u>

Total Assets	<u><u>\$113,243</u></u>
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**Liabilities and Equity**

**Current Liabilities**

Bank Overdraft	8,401
Accounts Payable	66,535
Intergovernmental Payable	46,025
Accrued Wages	41,408
Claims Payable	1,155
Notes Payable, currently due	17,268
Capital Leases, currently due	11,827
Total Current Liabilities	<u>192,619</u>

**Long Term Liabilities**

Capital Leases Payable, net of current portion	17,951
Notes Payable, net of current portion	25,548
Capital Loans Payable	33,701
Personal Loans Payable	258,589
Operating Lease Payable	207,955
Total Long Term Liabilities	<u>543,744</u>

Total Liabilities	736,363
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Accumulated Deficit	<u>(623,120)</u>
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Total Liabilities and Equity	<u><u>\$113,243</u></u>
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The accompanying notes to the financial statements  
are an integral part of this statement.

**HORIZON SCIENCE ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

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

<b><u>Operating Revenues</u></b>	
Foundation Payments	\$635,699
Book Fees	10,170
Lunch	10,273
Other	<u>12,888</u>
Total Operating Revenues	<u>669,030</u>
<b><u>Operating Expenses</u></b>	
Salaries	457,829
Fringe Benefits	137,040
Purchased Services	468,510
Materials & Supplies	48,111
Depreciation	23,401
Other	<u>21,297</u>
Total Operating Expenses	<u>1,156,188</u>
Operating Loss	(487,158)
<b><u>Non-Operating Revenues (Expenses)</u></b>	
Donations	6,100
State and Federal Grants	70,645
Interest on Capitalized Leases	(3,745)
Interest on Notes Payable	(6,106)
Loss on Disposal of Fixed Assets	<u>(855)</u>
Total Non-Operating Revenues (Expenses)	<u>66,039</u>
Net (Loss)	(421,119)
Accumulated Deficit at Beginning of Year	<u>(202,001)</u>
Accumulated Deficit at End of Year	<u><u>(\$623,120)</u></u>

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



**HORIZON SCIENCE ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

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

**Increase (decrease) In Cash and Cash Equivalents:**

**Cash Flows from Operating Activities**

Cash Received from State of Ohio	\$ 648,079
Cash Received from Students	20,510
Cash Received from Other Sources	11,383
Cash Payments to Employees for Services and Benefits	(573,466)
Cash Payments for Contractual Services	(312,637)
Cash Payments to Suppliers for Goods and Services	(47,640)
Cash Payments for other operating expenses	(19,705)
Net Cash Used for Operating Activities	<u>(273,476)</u>

**Cash Flows from Noncapital Financing Activities**

Donations Received	6,100
Grants Received	70,645
Personal Loans Received from officers and employees	237,704
Payments to officers and employees for personal loans	(18,700)
Interest paid on notes	(6,106)
Principal payments on notes	(15,224)
Net cash provided by noncapital financing activities	<u>274,419</u>

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

Acquisition of Capital Assets	(14,828)
Interest paid on capital leases	(3,745)
Principal payments on capital leases	(7,789)
Net Cash used for capital and related financing activities	<u>(26,362)</u>

Net Decrease in Cash (25,419)

Cash at Beginning of Year 17,018

Cash at End of Year (\$8,401)

Continued

**HORIZON SCIENCE ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

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

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

Operating Loss	(\$487,158)
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**Adjustments to reconcile Operating Loss to Net  
Cash Used for Operating Activities**

Depreciation	23,401
Changes in Assets and Liabilities	
Decrease in Intergovernmental Receivable	2,560
Increase in Other Receivable	(1,438)
Increase in Prepaids	(604)
Increase in Accounts Payable	53,073
Increase in Intergovernmental Payable	38,913
Decrease in Accrued Wages Payable	(12,001)
Increase in Claims Payable	1,155
Increase in Operating Lease Payable	<u>108,623</u>
Total Adjustments	213,682
Net Cash Used for Operating Activities	<u><u>(\$273,476)</u></u>

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

**HORIZON SCIENCE ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001**

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

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

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

The School operates under the direction of a five-member Board of Trustees. The Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board of Trustees controls the School's one instructional/support facility staffed by 3 non-certified and 10 certificated full time teaching personnel who provide services to up to 160 students during the year. The same Board of Trustees governs the Horizon Science Academy of Cleveland, Inc.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Basis Of Presentation**

The School uses enterprise accounting to report on its financial activities. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**B. Measurement Focus and Basis of Accounting**

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. The School had no contributed capital. 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.

**HORIZON SCIENCE ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

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

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

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

The full accrual basis of accounting is used for the reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

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

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

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

**C. Budgetary Process**

Unlike other public Schools located in the State of Ohio, community Schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the School and its sponsor. The contract between the School and its Sponsor does not prescribe a budgetary process for the School, therefore no budgetary information is presented in the financial statements.

**D. Cash and Cash Equivalents**

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

The School did not have any investments during fiscal year 2001.

**E. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2001, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

**HORIZON SCIENCE ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

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

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

**F. Fixed Assets and Depreciation**

Fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School maintains a capitalization threshold of five hundred dollars. The School does not have any infrastructure. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Improvements are capitalized.

Furniture, fixtures, vehicles and equipment are depreciated using the straight-line method over the following estimated useful lives. Improvements to fixed assets are depreciated over the remaining useful lives of the related fixed assets.

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

**G. Intergovernmental Revenues**

The School currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid (DPIA) Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the school must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the school on a reimbursement basis.

The School also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the School was awarded \$40,000 to offset start-up costs of the school. This money can be used for certain expenses as described in the grant agreement. As of June 30, 2001, the School used the grant for various supplies and materials and other operational costs. Revenue received from this program is recognized as non-operating revenue in the accompanying financial statements.

Amounts awarded under the above named programs for the 2001 school year totaled \$706,344.

**H. Compensated Absences**

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

**HORIZON SCIENCE ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

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

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

**I. Estimates**

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

**3. CHANGES IN ACCOUNTING PRINCIPLES**

For fiscal year 2001, the School has implemented *GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions,"* and *GASB Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues,"* which changes how the School reports certain types of revenues. The implementation of these pronouncements resulted in no change to the prior year's ending accumulated deficit.

**4. DEPOSITS**

At June 30, 2001, the carrying amount of the School's deposits was a deficit of \$8,401, and the bank balance was \$29,258. The total bank balance was federally insured up to \$100,000.

The School had no investments at June 30, 2001 or during the fiscal year.

**5. RECEIVABLES**

Receivables at June 30, 2001, consisted of accounts receivable only.

**6. FIXED ASSETS**

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

<u>Asset</u>	<u>Balance at June 30, 2001</u>
Furniture and Fixtures	\$56,495
Equipment	93,151
Vehicles	5,675
Total Fixed Assets	155,321
Less: Accumulated Depreciation	(44,228)
Net Fixed Assets	\$111,093

**HORIZON SCIENCE ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

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

**7. RISK MANAGEMENT**

**A. Property and Liability**

The School is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2001, the School contracted with Harcum-Hyre Insurance Company for property and general liability insurance with a \$1,000,000 single occurrence limit and \$3,000,000 annual aggregate and no deductible.

**B. Worker's Compensation**

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

**8. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

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

Plan members are required to contribute 9 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2001, 4.2 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2001, 5.5 percent was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2001 and 2000, were \$2,628 and \$1,499, respectively; 79.4% has been contributed for fiscal year 2001; 100% has been contributed for fiscal year 2000. As of June 30, 2001, the School's liability to SERS was \$541.

**B. State Teachers Retirement System**

The School contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

**HORIZON SCIENCE ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

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

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

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

For the fiscal year ended June 30, 2001, plan members were required to contribute 9.3 percent of their annual covered salaries. The School was required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. For fiscal year 2000, the portion used to fund pension obligations was 6.0 percent. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2001 and 2000 were \$39,672 and \$42,841, respectively; 99.2% has been contributed for fiscal year 2001 and 100% has been contributed for fiscal year 2000. As of June 30, 2001, the School's liability to STRS was \$317.

**9. POSTEMPLOYMENT BENEFITS**

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2001, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$18,792 for fiscal year 2001.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2000, (the latest information available) the balance in the Fund was \$3.419 billion. For the year ended June 30, 2000, net health care costs paid by STRS were \$283,137,000 and STRS had 99,011 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2001, employer contributions to fund health care benefits were 9.8 percent of covered payroll, an increase of 1.3 percent from fiscal year 2000. 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 was established at \$12,400. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2001 fiscal year equaled \$6,131.



**HORIZON SCIENCE ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

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

**9. POSTEMPLOYMENT BENEFITS (Continued)**

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2000 (the latest information available), were \$140,696,340 and the target level was \$211 million. At June 30, 2000, SERS had net assets available for payment of health care benefits of \$252.3 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**10. EMPLOYEE MEDICAL AND DENTAL BENEFITS**

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

**11. PURCHASED SERVICES**

Purchased service expenses during fiscal year 2001 were as follows:

Utilities	\$46,218
Rent	305,249
Computer Services	12,026
Advertising	43,599
Legal and Accounting Services	32,080
Shipping/Postage	4,372
Miscellaneous	24,966
	<hr/>
Total Purchased Services	<u>\$468,510</u>

**12. CAPITAL LEASES - LESSEE DISCLOSURE**

In the prior year, the School entered into several capitalized lease agreements for equipment. The leases meet the criteria of a capital lease as defined by *Statement of Financial Accounting Standards No. 13, "Accounting for Leases,"* which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital assets of \$41,535 have been recorded, which represents the present value of the minimum lease payments at time of acquisition. The accumulated depreciation for the capital lease fixed assets was \$13,488 at June 30, 2001. Principal payments for fiscal year 2001 totaled \$7,269.

**HORIZON SCIENCE ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

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

**12. CAPITAL LEASES - LESSEE DISCLOSURE (Continued)**

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2001.

Fiscal Year Ending June 30,	Lease Payments
2002	\$14,960
2003	10,932
2004	5,476
2005	2,552
Total Minimum Lease Payments	33,920
Less: Amount Representing Interest	(4,142)
Present Value of Minimum Lease Payments	\$29,778

**13. OPERATING LEASES - LESSEE DISCLOSURE**

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

Fiscal Year Ending June 30,	Lease Expense	Lease Cash Payments
2002	\$305,249	\$363,566
2003	305,249	380,071
2004	305,249	380,065
Future Rental Payments	\$915,747	\$1,123,702

**HORIZON SCIENCE ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

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

**14. NOTES PAYABLE**

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

	Interest	Balance June 30, 2000	Payments	Balance June 30, 2001
Newcourt Financial	13.90%	\$26,699	(\$9,222)	\$17,477
National City	10.73%	31,341	(6,002)	25,339
Total		\$58,040	(\$15,224)	\$42,816

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

Fiscal Year Ending June 30,	Newcourt Financial		National City		Total Payments
	Principal	Interest	Principal	Interest	
2002	\$10,589	\$1,771	\$6,679	\$2,397	\$21,436
2003	6,888	311	7,432	1,644	16,275
2004	0	0	8,270	806	9,076
2005	0	0	2,958	60	3,018
Total	\$17,477	\$2,082	\$25,339	\$4,907	\$49,823

The loan from Newcourt Financial is collateralized by certain computer equipment (See Note 16.). The loan from National City is uncollateralized.

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

**HORIZON SCIENCE ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

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

**15. PERSONAL LOANS PAYABLE**

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

Lender	Balance June 30, 2000	Additions	Payments	Balance June 30, 2001
H. B. Karayaka	\$16,300	\$114,754	\$0	\$131,054
T. Faki	0	30,000	0	30,000
S. Ozdemir	1,000	33,200	9,700	24,500
V. Akyum	9,450	10,000	0	19,450
T. Ertkin	11,835	6,000	0	17,835
M. Demici	1,000	16,000	2,000	15,000
H. Disli	0	12,000	2,000	10,000
I. Urlusoy	0	6,000	4,500	1,500
Other Lenders	0	9,750	500	9,250
<b>Total</b>	<b>\$39,585</b>	<b>\$237,704</b>	<b>\$18,700</b>	<b>\$258,589</b>

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

**16. CAPITAL LOANS PAYABLE**

In the prior year, employees of the School, Board Members, and other individuals purchased computers on behalf of the School. These individuals were to be reimbursed with the funds borrowed from Newcourt Financial. This note was obtained using the computers as collateral. The proceeds from that note, however, were not used to repay those individuals and, instead, were used for regular operations. These computers are not considered donations, but capital loans. The School, therefore, still owes those individuals for the computers they purchased. There is no interest associated with these loans and repayment is not scheduled. The School will repay these loans when funds are available. The following is a summary of this activity:

Loans	Payments	Balance June 30, 2001
\$33,701	\$0	\$33,701

**HORIZON SCIENCE ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

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

**17. RELATED PARTY TRANSACTIONS**

The Personal and Capital Loans described in Notes 15 and 16 are considered related party transactions.

**18. CONTINGENCIES**

**A. Grants**

The School received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the School. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2001.

**B. State School Funding Decision**

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The 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 May 2, 2002, 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 ongoing litigation will have on its future State funding under this program and on its financial operations.

**C. Litigation**

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

**HORIZON SCIENCE ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

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

**19. MANAGEMENT'S PLAN**

The School's significant recurring operating losses and negative cash flows from operating activities raise substantial doubt about its ability to continue as a going concern. Management plans to decrease the accumulated deficit by increasing student enrollment and reducing outstanding debt. The School is also negotiating with the landlord to secure lower monthly rental expense on the School's instructional buildings.



STATE OF OHIO  
OFFICE OF THE AUDITOR  
JIM PETRO, AUDITOR OF STATE

35 North Fourth Street  
Columbus, Ohio 43215  
Telephone 614-466-3402  
800-443-9275  
Facsimile 614-728-7199  
www.auditor.state.oh.us

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

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

We have audited the financial statements of the Horizon Science Academy of Columbus, Franklin County, Ohio, (the School) as of and for the year ended June 30, 2001, and have issued our report thereon dated May 2, 2002, wherein we expressed substantial doubt about the School's ability to continue as a going concern and disclosed audit and consulting fees that have been billed to the School and the portion that remains unpaid. 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2001-10625-001 through 2001-10625-003. We also noted certain immaterial instances of noncompliance that we have reported to management of the School in a separate letter dated May 2, 2002.

**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 items 2001-10625-004 through 2001-10625-0011.

**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 2001-10625-004 to 2001-10625-011 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 May 2, 2002.

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

May 2, 2002



**HORIZON SCIENCE ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

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

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**Finding Repaid Under Audit**

<b>Finding Number</b>	<b>2001-10625-001</b>
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The School terminated its Accountant on April 2, 2001. In error, the School continued to pay the employer portion of her medical benefits, \$350.28 per month, through June 30, 2001. In July of 2001, the Administrative Assistant and the School Director realized this mistake and notified the insurance company that this employee had been terminated.

In accordance with the foregoing facts pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery is hereby issued against H. David Disli, Director, and against Ridvan Uysaler, Administrative Assistant, jointly and severally, for public money illegally expended in the amount of \$1,051, and in favor of the Horizon Science Academy of Columbus.

This finding was repaid under audit.

**Material Noncompliance**

<b>Finding Number</b>	<b>2001-10625-002</b>
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Article 3, Section B of the Charter states that the Governing Authority agrees to comply with the requirements and procedures for financial record as set forth in the Financial Plan. The Financial Plan addresses procedures for maintaining financial records, preparing GAAP financial statements, purchasing fixed assets, disposal of fixed assets, and purchasing supplies and materials.

The School did not comply with the following requirements set forth in the Financial Plan:

- Financial records were not maintained in accordance with the Charter. The School did not use the Uniform System of Accounting (USAS) and records were not always available to support financial activity.
- A fixed asset system was not developed. Procedures to track additions and disposals of fixed assets were not maintained.
- Purchase orders (requisitions) were not used by the School for purchasing supplies and materials.

We recommend the School follow the procedures set forth in the Financial Plan. The School should ensure supporting documentation is maintained for all financial activity.

<b>Finding Number</b>	<b>2001-10625-003</b>
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Ohio Rev. Code Section 3314.08(J) states a community school may borrow money to pay any necessary and actual expenses of the school in anticipation of the receipt of any portion of the payments to be received by the school pursuant to division (D) of this section. The school may issue notes to evidence such borrowing to mature no later than the end of the fiscal year in which such money was borrowed. The proceeds of the notes shall be used only for the purposes for which the anticipated receipts may be lawfully expended by the school.

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

**HORIZON SCIENCE ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

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

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

<b>Finding Number</b>	<b>2001-10625-004</b>
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**Accounting System**

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

Using the manual system, the School was unable to prepare complete bank reconciliations or financial statements. The lack of a proper accounting system led to overdraft bank balances and unauditible financial records. The School had to contract with an outside consultant to reconstruct cash basis activity and fund balances, prepare monthly reconciliations, and to prepare GAAP financial statements.

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

<b>Finding Number</b>	<b>2001-10625-005</b>
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**Bank Reconciliations**

Monthly bank to book reconciliations were not performed. The School did utilize daily statements from the bank to monitor cleared transactions and bank balances.

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

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

**HORIZON SCIENCE ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

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

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

<b>Finding Number</b>	<b>2001-10625-006</b>
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**Payroll Cycle**

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

- Documentation was not provided in the minutes for new hires, pay rates for employees, stipends (i.e. after school, substitution rates), benefits, and information about at-will employees (i.e. rate, maximum hours, etc.). Formal leave forms were not maintained indicating leave accruals or leave time taken during the fiscal period. The School did maintain informal documentation of leave used.
- Formal time sheets with supervisory approval were not maintained documenting hours spent on after school activities or substituting for another teacher. The School did maintain informal documentation of these hours.

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

The following procedures should be applied:

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

**HORIZON SCIENCE ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

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

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

<b>Finding Number</b>	<b>2001-10625-007</b>
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**Purchasing Cycle**

The following control weaknesses were noted in the purchasing process:

- There was no prior written authorization of purchases by the Director. The Director did verbally approve purchases.
- Invoices or employee reimbursement documentation and any other pertinent information were not filed together.
- Expenditures were not coded for the type of activity, i.e. supplies and materials, capital outlay, debt service, etc.
- Supporting documentation, i.e. receipts, invoices, and payment stubs, were not always maintained.

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

The processing of non-payroll disbursements may include, but is not limited to:

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

**HORIZON SCIENCE ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

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

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

<b>Finding Number</b>	<b>2001-10625-008</b>
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**Receipts Cycle**

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

- Adequate supporting documentation was not always maintained for book fees, lunch, lock fees, extracurricular activities, etc.

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

- Record the date, amount, source, and type for each cash receipt.
- Maintain supporting documentation for all receipts, including direct deposit advices, in an orderly and accessible manner.
- Receipt activity should be reviewed by the Director and this review should be documented.

<b>Finding Number</b>	<b>2001-10625-009</b>
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**Fixed Assets**

The following control weaknesses over fixed assets exist:

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

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

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

**HORIZON SCIENCE ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

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

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

<b>Finding Number</b>	<b>2001-10625-010</b>
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**Monitoring Control System**

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

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

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

<b>Finding Number</b>	<b>2001-10625-011</b>
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**Debt**

The School has \$258,589 in personal loans outstanding with officials and employees. The School did not maintain debt agreements, supporting documentation for proceeds or payments and amortization schedules for this debt activity.

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

We recommend the School maintain a loan agreement for all personal loans. In addition, all debt issuances should be approved by the Board.

**HORIZON SCIENCE ACADEMY OF COLUMBUS  
FRANKLIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2001**

<u>Finding Number</u>	<u>Summary</u>	<u>Status of Finding</u>
2000-10625-001	Ohio Revised Code 3314.08(J) – Community School debt must be evidenced by notes and mature by fiscal year end.	Not Corrected
2000-10625-002	Ohio Admin. Code Section 117-2-01 – Community Schools required to employ uniform system of accounting (USAS)	Not Corrected
2000-10625-003	Bank Reconciliations	Not Corrected
2000-10625-004	Payroll Cycle	Not Corrected
2000-10625-005	Purchasing Cycle	Not Corrected
2000-10625-006	Receipts Cycle	Not Corrected
2000-10625-007	Fixed Assets	Not Corrected
2000-10625-008	Monitoring Control System	Not Corrected
2000-10625-009	Debt	Not Corrected







STATE OF OHIO  
OFFICE OF THE AUDITOR  

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JIM PETRO, AUDITOR OF STATE

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140  
Telephone 614-466-4514  
800-282-0370  
Facsimile 614-466-4490

**HORIZON SCIENCE ACADEMY OF COLUMBUS**

**FRANKLIN COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JUNE 27, 2002**