



**Auditor of State
Betty Montgomery**

**HORIZON SCIENCE ACADEMY OF COLUMBUS
FRANKLIN COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Trustees:

We have audited the accompanying Balance Sheet of the Horizon Science Academy of Columbus, Franklin County, Ohio, (the School) as of June 30, 2003, and the related Statement of Revenues, Expenses and Changes in Accumulated Deficit/Retained Earnings 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, 2003, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2004, 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 that reads "Betty Montgomery".

**Betty Montgomery
Auditor of State**

January 23, 2004

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**HORIZON SCIENCE ACADEMY OF COLUMBUS
FRANKLIN COUNTY**

**BALANCE SHEET
AS OF JUNE 30, 2003**

Assets

Current Assets

Cash	\$46,631
Intergovernmental Receivable	25,932
Prepays	9,749
Total Current Assets	<u>82,312</u>

Non-Current Assets

Security Deposit held by Lessor	43,375
Fixed Assets (Net of Accumulated Depreciation)	146,702
Total Non-Current Assets	<u>190,077</u>

Total Assets	<u><u>272,389</u></u>
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Liabilities and Equity

Current Liabilities

Accounts Payable	21,710
Intergovernmental Payable	15,152
Accrued Wages	65,221
Compensated Absences	3,010
Notes Payable, currently due	8,270
Capital Leases, currently due	5,485
Total Current Liabilities	<u>118,848</u>

Long Term Liabilities

Notes Payable, net of current portion	2,959
Capital Leases Payable, net of current portion	2,544
Personal Loans Payable	123,529
Total Long Term Liabilities	<u>129,032</u>

Total Liabilities	247,880
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Retained Earnings	<u>24,509</u>
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Total Liabilities and Equity	<u><u>\$272,389</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 RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2003**

<u>Operating Revenues</u>	
Foundation Payments	\$ 1,476,218
Disadvantaged Pupil Impact Aid	17,017
Book Fees	10,436
Lunch Sales	15,964
Other	54,059
Total Operating Revenues	<u>1,573,694</u>
<u>Operating Expenses</u>	
Salaries	724,358
Fringe Benefits	180,914
Rent	217,033
Purchased Services	159,158
Materials & Supplies	129,675
Depreciation	31,276
Other	16,623
Total Operating Expenses	<u>1,459,037</u>
Operating Income	114,657
<u>Non-Operating Revenues (Expenses)</u>	
Donations	9,070
Gain on Change in Lease Terms	46,965
Gain on Forgiveness of Debt	261,908
State Grants	6,797
Federal Grants	97,438
Interest on Capitalized Leases	(973)
Interest on Notes Payable	(4,117)
Total Non-Operating Revenues (Expenses)	<u>417,088</u>
Net Income	531,745
Accumulated Deficit at Beginning of Year	<u>(507,236)</u>
Retained Earnings at End of Year	<u><u>\$24,509</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, 2003**

Increase (decrease) In Cash:

Cash Flows from Operating Activities

Cash Received from State of Ohio	\$ 1,469,278
Cash Received from Students	26,400
Cash Received from Other Sources	54,059
Cash Payments to Employees for Services and Benefits	(753,277)
Cash Payments for Employee Benefits	(187,243)
Cash Payments for Contractual Services	(402,145)
Cash Payments to Suppliers for Goods and Services	(136,312)
Cash Payments for other operating expenses	<u>(16,623)</u>
Net Cash provided by Operating Activities	<u>54,137</u>

Cash Flows from Noncapital Financing Activities

Donations Received	9,070
Grants Received	104,235
Payments to officers and employees for personal loans	(59,500)
Interest paid on notes	(4,117)
Principal payments on notes	(15,259)
Bank Overdraft Outflow	<u>(28,316)</u>
Net cash provided by noncapital financing activities	<u>6,113</u>

Cash Flows from Capital and Related Financing Activities

Acquisition of Capital Assets	(2,200)
Interest paid on capital leases	(973)
Principal payments on capital leases	<u>(10,446)</u>
Net Cash used for capital and related financing activities	<u>(13,619)</u>

Net Increase in Cash	46,631
Cash at Beginning of Year	<u>0</u>
Cash at End of Year	<u><u>\$46,631</u></u>

Continued

**HORIZON SCIENCE ACADEMY OF COLUMBUS
FRANKLIN COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

**Reconciliation of Operating Income to Net Cash
provided by Operating Activities**

Operating Income	\$114,657
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**Adjustments to reconcile Operating Income to Net
Cash provided by Operating Activities**

Depreciation	31,276
Changes in Assets and Liabilities	
Increase in Intergovernmental Receivable	(23,957)
Increase in Prepaids	(1,205)
Decrease in Accounts Payable	(19,436)
Decrease in Intergovernmental Payable	(41,618)
Increase in Accrued Wages Payable	5,377
Increase in Compensated Absences Payable	3,010
Decrease in Operating Lease Payable	<u>(13,967)</u>
Total Adjustments	(60,520)
Net Cash provided by Operating Activities	<u><u>\$54,137</u></u>

Noncash Activity:

Forgiveness of Financing Agreement Liability	\$261,908
Gain on Change in Lease Terms	46,965

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, 2003**

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, which has since been modified to include grades ten through twelve. 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. The School 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 self-appointed 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 5 non-certified and 23 certificated full time teaching personnel who provide services to up to 300 students during the year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis Of Presentation

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

B. Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. The School had no contributed capital. 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, 2003
(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. Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are 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.

D. Cash

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 2003.

E. Prepaid Items

Payments made to vendors that will benefit periods beyond June 30, 2003, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the payment and an expense is reported in the year in which benefit is received.

F. Fixed Assets and Depreciation

Fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School maintains a capitalization threshold of one thousand dollars per its contract with the Ohio Department of Education. 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. The School does not capitalize interest.

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. Leasehold improvements are depreciated using the straight-line method over the life of the lease.

<u>Asset</u>	<u>Useful Life</u>
Furniture and Fixtures	10 years
Equipment and Vehicles	5 - 10 years
Leasehold Improvements	10 years (life of lease)

**HORIZON SCIENCE ACADEMY OF COLUMBUS
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Amounts awarded under these programs for the 2003 school year totaled \$1,597,470.

H. Compensated Absences

School policy indicates that all leave earned by employees must be used in the current period and balances are not carried forward, and, therefore, are not recorded as a liability. For the fiscal year ending June 30, 2003, the School elected to pay employees for unused leave, which amounted to \$3,010 and is reported as a liability as of June 30, 2003.

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. CHANGE IN ACCOUNTING ESTIMATE

As part of the original five year lease agreement for the School's buildings, the School entered into a financing agreement to pay for leasehold improvements to the buildings. These leasehold improvements were capitalized and were being depreciated over the life of the original lease. On June 30, 2003, the School entered into a new lease agreement for the buildings through June 30, 2009. The School, therefore, will now depreciate the leasehold improvements over ten years.

4. DEPOSITS

At June 30, 2003, the carrying amount of the School's deposits was \$46,631, and the bank balance was \$69,157. The total bank balance was insured by FDIC. The School had no investments at June 30, 2003 or during the fiscal year.

5. PREPAIDS

Prepaid assets at June 30, 2003, consisted of amounts withheld from the School's foundation payments for STRS employer match payments in excess of the required contribution. The amount of excess was \$9,749.

**HORIZON SCIENCE ACADEMY OF COLUMBUS
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

6. FIXED ASSETS

A summary of the School's fixed assets at June 30, 2003, follows:

<u>Asset</u>	<u>Balance at June 30, 2003</u>
Leasehold Improvements	\$284,510
Furniture and Fixtures	41,773
Equipment	55,256
Vehicles	7,785
Total Fixed Assets	<u>\$389,414</u>
Less: Accumulated Depreciation	<u>(242,712)</u>
Net Fixed Assets	<u>\$146,702</u>

7. SECURITY DEPOSIT

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

8. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School contributes to the School Employees Retirement System (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 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 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

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 School 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 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligation. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$5,184, \$3,384, and \$2,628, respectively; 84% has been contributed for fiscal year 2003; 100% has been contributed for fiscal years 2002 and 2001. The School had an outstanding payable to SERS in the amount of \$2,672 at June 30, 2003, of which \$819 was for pension obligations.

**HORIZON SCIENCE ACADEMY OF COLUMBUS
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School's required contributions for pension obligations for the fiscal years ended June 30, 2003, 2002, and 2001 were \$89,677, \$49,256, and \$39,672 respectively; 100 percent has been contributed for fiscal years 2003, 2002, and 2001.

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.

**HORIZON SCIENCE ACADEMY OF COLUMBUS
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

9. POSTEMPLOYMENT BENEFITS (Continued)

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, 2003, the STRS Board allocated employer contributions equal to one percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$6,898 for fiscal year 2003. STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2002, (the latest information available) the balance in the Fund was \$3.011 billion. For the year ended June 30, 2002, net health care costs paid by STRS were \$354.697 million and STRS had 105,300 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, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll.

In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay was established at \$14,500. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2003 fiscal year equaled \$4,969. 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, 2002 (the latest information available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

10. 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 2003, 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. 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. The School owed \$2,864 for this premium as of June 30, 2003.

11. EMPLOYEE MEDICAL AND DENTAL BENEFITS

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

**HORIZON SCIENCE ACADEMY OF COLUMBUS
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

12. PURCHASED SERVICES

Purchased service expenses during fiscal year 2003 were as follows:

<u>Type</u>	
Professional/Accounting/Legal Services	\$37,149
Maintenance/Property Services	38,781
Advertising	35,261
Computer Services	2,406
Utilities	36,205
Pupil Transportation	2,202
Shipping/Postage	5,466
Other Purchased Services	1,687
Total	\$159,158

13. CAPITAL LEASES - LESSEE DISCLOSURE

In prior years, the School entered into several capitalized lease agreements for equipment. The leases meet the criteria of a capital lease as defined by *Statement of Financial Accounting Standards No. 13, "Accounting for Leases,"* which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital assets of \$40,711 have been recorded, which represents the present value of the minimum lease payments at time of acquisition. The accumulated depreciation for the capital lease fixed assets was \$26,360 at June 30, 2003. Principal payments for fiscal year 2003 totaled \$10,446. 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, 2003.

<u>Fiscal Year Ending June 30,</u>	<u>Lease Payments</u>
2004	\$5,612
2005	<u>2,552</u>
Total Minimum Lease Payments	8,164
Less: Amount Representing Interest	(135)
Present Value of Minimum Lease Payments	<u>\$ 8,029</u>

14. NOTES PAYABLE

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

	<u>Interest</u>	<u>Balance June 30, 2002</u>	<u>Payments</u>	<u>Balance June 30, 2003</u>
Newcourt Financial	13.90%	\$ 7,827	(\$7,827)	\$ 0
National City	10.73%	18,661	(7,432)	11,229
Total		\$26,488	(\$15,259)	\$11,229

Amortization of the School's remaining note payable is as follows:

<u>Fiscal Year Ending June 30,</u>	<u>National City</u>		<u>Total Payments</u>
	Principal	Interest	
2004	\$ 8,270	\$806	\$ 9,076
2005	2,958	60	3,018
Total	\$11,228	\$866	\$12,094

The loan from National City is un-collateralized.

**HORIZON SCIENCE ACADEMY OF COLUMBUS
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

15. PERSONAL LOANS PAYABLE

The School received personal loans from Board Members, Administrators, and other individuals in previous years to continue operations. There is no interest associated with these loans and repayment is not scheduled. The school has repaid and will continue to repay these loans when funds are available. These loans are un-collateralized. The following is a summary of that activity:

Lender	Balance June 30, 2002	Additions	Payments	Balance June 30, 2003
H. B. Karayaka	\$70,444	\$0	\$24,500	\$45,944
T. Faki	30,000	0	12,000	18,000
S. Ozdemir	24,500	0	0	24,500
V. Akgun	20,000	0	0	20,000
T. Ertkin	17,835	0	15,000	2,835
M. Demici	10,000	0	0	10,000
H. Disli	5,500	0	5,500	0
I. Unlusoy	1,500	0	0	1,500
M. Demirbas	2,500	0	2,500	0
S. Bicer	750	0	0	750
Total	<u>\$183,029</u>	<u>\$0</u>	<u>\$59,500</u>	<u>\$123,529</u>

16. OPERATING LEASE

The School entered into an operating lease in fiscal year 1999. The operating lease included an annual increase. Under generally accepted accounting principles, the School was recognizing lease expenses on a straight line basis and recorded an operating lease payable for the difference between cash payments and the amount expensed.

On June 30, 2003, the School renegotiated the lease agreement. The operating lease payable was, therefore, eliminated and a non-operating gain of \$46,965 was recognized. The new six year lease includes an annual 4% increase that management considers to be a normal cost of living increase.

Required payments for the renegotiated lease are as follows:

Fiscal year ending:	Amount to be paid
June 30, 2004	\$186,450
June 30, 2005	193,908
June 30, 2006	201,664
June 30, 2007	209,731
June 30, 2008	218,120
June 30, 2009	226,845

17. FINANCING AGREEMENT LIABILITY

As part of the original operating lease for the school buildings (see Note 16), the School agreed to pay for \$284,510 in leasehold improvements to buildings for construction/modification costs and for \$55,380 in interest accruing between the completion date of the leasehold improvements (September 1999) and July 1, 2001. The School began making monthly installments on this liability on July 1, 2001. The School did not, however, make any payments on this liability after March, 2002.

As part of the renegotiated lease dated June 30, 2003, the remaining balance on the financing agreement liability, \$261,908, was forgiven and is reported as a non-operating gain in the financial statements.

**HORIZON SCIENCE ACADEMY OF COLUMBUS
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

18. RELATED PARTY TRANSACTIONS

The Personal Loans described in Note 15 are considered related party transactions.

19. 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 are 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, 2003.

B. State School Funding Decision

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

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

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

C. Ohio Department of Education Enrollment Review

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the School. These reviews are conducted to ensure the Community School is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The review for fiscal year 2003 resulted in the discovery of an underpayment to the School in the amount of \$25,932. This amount has been reflected as a receivable and as foundation revenue in the financial statements.

D. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. On April 21, 2003 the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard for oral argument on November 18th, 2003. The effect of this suit, if any, on the School is not presently determinable.

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Auditor of State Betty Montgomery

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

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

To the Board of Trustees:

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, 2003, and have issued our report thereon dated January 23, 2004. 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that we have reported to management of the School in a separate letter dated January 23, 2004.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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 of risk that misstatements in the 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we 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 January 23, 2004.

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Horizon Science Academy of Columbus
Franklin County
Independent Accountants' Report on Compliance and on Internal Control
Required by *Government Auditing Standards*
Page 2

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.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

January 23, 2004

**HORIZON SCIENCE ACADEMY OF COLUMBUS
FRANKLIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2003**

<u>Finding Number</u>	<u>Summary</u>	<u>Status of Finding</u>
2002-10625-001	Ohio Revised Code 3314.08(J) – Community School debt must be evidenced by notes and mature by fiscal year end.	Compliance requirement changed - no longer limited to one year
2002-10625-002	Accounting System	Fully Corrected
2002-10625-003	Bank Reconciliations	Fully Corrected
2002-10625-004	Receipts Cycle	Fully Corrected
2002-10625-005	Payroll Cycle	Fully Corrected
2002-10625-006	Purchasing Cycle	Fully Corrected
2002-10625-007	Fixed Assets	Fully Corrected
2002-10625-008	Monitoring Control System	Fully Corrected



**Auditor of State
Betty Montgomery**

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HORIZON SCIENCE ACADEMY OF COLUMBUS

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 4, 2004**