



**Auditor of State  
Betty Montgomery**



**HORIZON SCIENCE ACADEMY OF CLEVELAND  
CUYAHOGA COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report	1
Balance Sheet as of June 30, 2003	3
Statement of Revenues, Expenses and Changes in Retained Earnings for the Year Ended June 30, 2003	4
Statement of Cash Flows for the Year Ended June 30, 2003	5
Notes to the Financial Statements	7
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	17
Schedule of Findings	19
Schedule of Prior Audit Findings	22

**This page intentionally left blank.**



**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

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

To the Board of Trustees:

We have audited the financial statements of the Horizon Science Academy of Cleveland, Cuyahoga County, Ohio, (the Academy) as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the Academy'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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the Horizon Science Academy of Cleveland, Cuyahoga County, Ohio, as of June 30, 2003 and the results of its operation and cash flows for the year 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 May 16, 2005 on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal controls over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

A handwritten signature in black ink that reads "Betty Montgomery".

**Betty Montgomery**  
Auditor of State

May 16, 2005

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801  
Telephone: (216) 787-3665 (800) 626-2297 Fax: (216) 787-3361  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

**This page intentionally left blank.**

**HORIZON SCIENCE ACADEMY OF CLEVELAND  
 CUYAHOGA COUNTY  
 BALANCE SHEET  
 AS OF JUNE 30, 2003**

ASSETS

Current Assets:	
Cash and Cash equivalents	\$ 39,473
Grant Receivable	31,599
Total Current Assets	<u>71,072</u>
Non-Current Assets:	
Fixed Assets (Net of Accumulated Depreciation)	<u>4,189,523</u>
 Total Assets	 <u><u>\$ 4,260,595</u></u>

LIABILITIES AND EQUITY

Current Liabilities:	
Accounts Payable	\$ 217,931
Intergovernmental Payable	57,849
Accrued Expenses	21,891
Lines of Credit	45,952
Accrued Wages and Benefits	74,900
Capital Leases Payable	3,689
Mortgage Payable	<u>57,782</u>
Total Current Liabilities	479,994
Non-Current Liabilities:	
Loans Payable	184,179
Capital Leases Payable	4,920
Mortgage Payable	<u>2,569,188</u>
Total Non-Current Liabilities	<u>2,758,287</u>
Equity:	
Retained Earnings	<u>1,022,314</u>
 Total Liabilities and Equity	 <u><u>\$ 4,260,595</u></u>

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

**HORIZON SCIENCE ACADEMY OF CLEVELAND  
 CUYAHOGA COUNTY  
 STATEMENTS OF REVENUES,  
 EXPENSES, AND CHANGES IN RETAINED EARNINGS  
 FOR THE YEAR ENDED JUNE 30, 2003**

Operating Revenues:	
Foundation Payments	\$ 2,426,281
Other Operating Revenue	<u>134,620</u>
Total Operating Revenue	<u>2,560,901</u>
Operating Expenses:	
Salaries	1,166,288
Fringe Benefits	235,028
Purchased Services	287,702
Materials and Supplies	117,446
Depreciation	119,263
Interest Expense	274,522
Occupancy Expenses	66,294
Other Operating Expenses	<u>62,393</u>
Total Operating Expenses	<u>2,328,936</u>
Operating Income	231,965
Non-Operating Revenues	
Federal Grants	411,280
State Grants	8,500
Rental Income	<u>120,000</u>
Total Non-Operating Revenue	<u>539,780</u>
Net Income	771,745
Retained Earnings at Beginning of Year	<u>250,569</u>
Retained Earnings at End of Year	<u><u>\$ 1,022,314</u></u>

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



**HORIZON SCIENCE ACADEMY OF CLEVELAND  
CUYAHOGA COUNTY  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2003**

Cash Flows from Operating Activities:	
Cash Received from State of Ohio	\$ 2,426,281
Cash Payments to Suppliers for Goods and Services	(1,559,893)
Cash Payments to Employees for Services	(1,220,180)
Cash Received from Others	<u>134,620</u>
Net Cash Used for Operating Activities	<u>(219,172)</u>
Cash Flows from Noncapital Financing Activities:	
Non-Operating Grants and Contributions Received	497,897
Payments of Lines of Credit	(1,213)
Repayment to Officers and Directors	(118,772)
Repayment on Other Loans	<u>(7,819)</u>
Net Cash Provided by Noncapital Financing Activities	<u>370,093</u>
Cash Flows from Capital and Related Financing Activities:	
Payments for Capital Acquisitions	(170,411)
Payments of Capitalized Leases	(8,732)
Payment of Mortgage	<u>(52,305)</u>
Net Cash Used by Capital Financing Activities	<u>(231,448)</u>
Cash Flows from Investing Activities:	
Rental Income	<u>120,000</u>
Net Cash Provided by Investing Activities	<u>120,000</u>
Net Increase in Cash and Cash Equivalents	39,473
Cash and Cash Equivalents at the Beginning of the Year	<u>0</u>
Cash and Cash Equivalents at the End of the Year	<u><u>\$ 39,473</u></u>

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

**HORIZON SCIENCE ACADEMY OF CLEVELAND  
 CUYAHOGA COUNTY  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED JUNE 30, 2003  
 (Continued)**

Reconciliation of Operating Income to Net  
 Cash Used for Operating Activities:

Operating Income	\$	231,965
Adjustments to Reconcile Operating Income to Net Cash Used for Operating Activities:		
Depreciation		119,263
Changes in Assets and Liabilities:		
Decrease in Accounts Receivable		4,000
Decrease in Accounts Payable		(330,539)
Decrease in Wages and Benefits		(27,482)
Decrease in Accrued Expenses		(16,715)
Decrease in Intergovernmental Payable		(172,551)
Decrease in Overdraft Liability		<u>(27,113)</u>
Total Adjustments		<u>(451,137)</u>
Net Cash Used for Operating Activities	\$	<u><u>(219,172)</u></u>

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

**HORIZON SCIENCE ACADEMY OF CLEVELAND  
CUYAHOGA COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003**

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

Horizon Educational Services Incorporated (HESI) is a non-profit corporation established pursuant to Ohio Rev. Code Chapter 1702. It was granted 501(c)(3) status by the Internal Revenue Service on January 26, 1999. Management is not aware of any course of action or series of events that have occurred that might adversely affect the HESI's tax exempt status. HESI created the Horizon Science Academy of Cleveland (the Academy) as permitted under Ohio Revised Code Chapter 3314 to address the needs of students grades six through twelve. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy. The Academy was approved for operation by the State Board of Education for a period of five years commencing September 1999.

The Academy 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 Academy's one instructional/support facility staffed by 6 administrative, 5 support and 29 certified teachers who provide services to 438 students. One member of the Board of Trustees is also on the Board of Trustees of the Horizon Science Academy of Columbus.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Basis of Presentation**

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

**HORIZON SCIENCE ACADEMY OF CLEVELAND  
CUYAHOGA COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

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

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

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Operating statements present increases (e.g. revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

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

**C. Budgetary Process**

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705, unless specifically provided in the Academy's contract with its sponsor. The contract between the Academy and its sponsor does not prescribe a budgetary process for the Academy, but does require the preparation of a five year forecast, which is to be updated on an annual basis.

**D. Fixed Assets and Depreciation**

Fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the dates received. The Academy maintains a capitalization threshold of five hundred dollars per item purchased. The Academy does not possess any infrastructure.

Improvements are capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Fixed assets are depreciated using the straight-line method over the following estimated useful lives. Improvements to fixed assets are depreciated over the remaining useful lives of the related fixed assets.

<u>Assets</u>	<u>Years</u>
Building & leasehold improvements	39
Furniture and equipment	10
Computer and electronic equipment	5

**HORIZON SCIENCE ACADEMY OF CLEVELAND  
CUYAHOGA COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

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

**E. Intergovernmental Revenues**

The Academy currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid Program (“DPIA”), and the State Special Education Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which they are earned and become measurable.

The Academy also participates in the Federal Community (charter) School Grant Planning and Implementation Sub-Grant through the Ohio Department of Education. Under this program, the Academy received \$150,000 under phase III. Revenue received from this program is recognized as non-operating revenue on the accompanying financial statements. Grants and entitlements are recognized as non-operating revenue in the accounting period in which they were earned and become measurable.

**F. Cash and Cash Equivalents**

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

**G. Compensated Absences**

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

**H. Use of Estimates**

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

**3. DEPOSITS AND INVESTMENTS**

At June 30, 2003, the carrying amount of deposits was \$39,473. The bank balance was \$127,431. The bank balance was federally insured for \$100,000. \$27,431 was not insured or collateralized.

**HORIZON SCIENCE ACADEMY OF CLEVELAND  
CUYAHOGA COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**4. FIXED ASSETS**

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

Building and Improvements	\$4,411,993
Furniture and Equipment	62,005
School Buses	<u>2,848</u>
Subtotal	4,476,846
Less accumulated depreciation	<u>287,323</u>
Net Fixed Assets	<u>\$4,189,523</u>

**5. RISK MANAGEMENT**

**A. Property and Liability**

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2003, the Academy contracted with AJ Amer Agency Inc. to provide property, general liability, and professional liability insurance. The building, furniture and equipment have a \$4,100,000 limit, the liability insurance has a \$1,000,000 single occurrence limit and \$2,000,000 annual aggregate and no deductible, and the professional liability has a \$1,000,000 single occurrence limit and \$3,000,000 aggregate and a \$1,000 deductible.

**B. Workers' Compensation**

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

**C. Employee Medical**

For the first six months of fiscal year 2003, the Academy was contracted with a Medical Mutual through the Council of Smaller Enterprises (COSE) to provide employee medical/surgical benefits. The employees' premiums were \$355 for family coverage, \$254 for two person coverage, and \$127 for single coverage per employee per month. The Academy then contracted with Kaiser Permanente through COSE and the premiums decreased the last six months to \$337.36 for family, \$236.74 for two person coverage, and \$118.37 for single coverage per employee per month.

**HORIZON SCIENCE ACADEMY OF CLEVELAND  
CUYAHOGA COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**6. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The Academy contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides basic 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, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 9% of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14% of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2003, 8.17% 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 adequacy of the contribution rates is determined annually. The Academy's required contributions to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$5,997, \$5,321, and \$5,678, respectively; 77.5% has been contributed for fiscal year 2003 and 100% for the fiscal years 2002 and 2001. \$1,376 represents the unpaid contribution for fiscal year 2003.

**B. State Teachers Retirement System**

The Academy contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided 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. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

**HORIZON SCIENCE ACADEMY OF CLEVELAND  
CUYAHOGA COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

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

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

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 balance 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.

Plan members are required to contribute 9.3 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14% of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2003, 13% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 9.5% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation 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 employee contributions.

The Academy's required contributions to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$138,645, \$119,876, and \$49,586 respectively; 68.57% has been contributed for fiscal year 2003 and 100% for the fiscal years 2002 and 2001. \$43,578 represents the unpaid contributions for fiscal year 2003.



**HORIZON SCIENCE ACADEMY OF CLEVELAND  
CUYAHOGA COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**7. POSTEMPLOYMENT BENEFITS**

The Academy provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go basis.

The State Teachers Retirement 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 Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate; currently 14 percent of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund. For the Academy, this amount equaled \$10,665 during fiscal 2003 of which \$3,357 was the unpaid contribution.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$2.8 billion at June 30, 2003. For the fiscal year ended June 30, 2003, net health care costs paid by STRS were \$352,301,000 and STRS had 108,294 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and 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 allocation for the basic benefits the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For this fiscal year, employer contributions to fund health care benefits were 5.83% 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 fiscal year 2003, the amount of health care benefits equaled \$5,984, of which \$2,677 was payable at June 30, 2003.

The surcharge, added to the unallocated portion of the 14% 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% of annual health care expenses. Expenses for health care at June 30, 2003 were \$204,930,737 and the target level was 307.4 million. At June 30, 2003 SERS had net assets available for payment of health care benefits of \$303.6 million and SERS had approximately 50,000 participants receiving health care benefits.

**HORIZON SCIENCE ACADEMY OF CLEVELAND  
CUYAHOGA COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**8. BUILDING PURCHASE**

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

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

**9. CONTINGENCIES**

**A. Grants**

The Academy received financial assistance from federal agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds.

The Academy is currently undergoing a federal audit of the grants received during fiscal year 2002. Currently, approximately \$108,318 in federal funds may possibly be disallowed.

**B. Ohio Community School Program**

A suit was filed in Franklin County Common Pleas Court on May 14, 2001 alleging Ohio's Community (Charter) Schools program violates the State Constitution and State law. On April 21, 2003 the Court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of constitutional issues. The Plaintiffs appealed to the Court of Appeals, the issues have been briefed, and oral arguments were heard on November 18, 2003.

**HORIZON SCIENCE ACADEMY OF CLEVELAND  
CUYAHOGA COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**10. STATE SCHOOL FUNDING DECISION**

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. This 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..."

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

**11. PURCHASED SERVICES**

Purchased Services include the following:

Insurance	\$ 18,053
Professional Services	71,263
Advertising	34,026
Classroom Supplies & Printing	22,970
Equipment Lease & Rental	19,399
Utilities and Telephone	76,448
Other	<u>45,543</u>
 Total Purchased Services	 <u>\$287,702</u>

**12. LINES OF CREDIT**

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

<b>Notes:</b>	<b>Credit Limit</b>	<b>Balance June 30, 2003</b>
7.00% Key Bank	\$20,000	\$18,841
5.25% National City Bank	30,000	27,111
Total	<u>\$50,000</u>	<u>\$45,952</u>

Principal payments of \$1,213 were made during fiscal year 2003. Interest payments in the amount of \$2,694 were made during the year. The Lines of credit are uncollateralized. These lines of credit are presented on the accompanying financial statements as a current liability.

**HORIZON SCIENCE ACADEMY OF CLEVELAND  
CUYAHOGA COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**13. PERSONAL LOANS PAYABLE**

The Academy received personal loans from Board Members and Administrators in previous years to continue operations. There is no interest associated with these loans and repayment is not scheduled. These loans are presented as long term debt on the accompanying financial statements. The Academy will repay these loans when funds are available. These loans are uncollateralized.

**14. CAPITAL LOANS PAYABLE**

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



## **Auditor of State Betty Montgomery**

### **INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of the Horizon Science Academy of Cleveland, Cuyahoga County, Ohio, (the Academy) as of and for the year ended June 30, 2003, and have issued our report thereon dated May 16, 2005. 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 the Comptroller General of the United States' *Government Auditing Standards*.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Academy'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 opine 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 Academy's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2003-002 through 2003-004.

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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees 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. We consider reportable conditions 2003-002 through 2003-004, listed above to be material weaknesses. In a separate letter to the Academy's management dated May 16, 2005, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

### **Compliance and Other Matters**

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed an instance of noncompliance or other matter that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2003-001. In a separate letter to the Academy's management dated May 16, 2005, we reported other matters related to noncompliance we deemed immaterial.

This report is intended solely for the information and use of the audit committee, management, and the Board of Trustees. It is for anyone other than these specified parties.



**Betty Montgomery**  
Auditor of State

May 16, 2005

**HORIZON SCIENCE ACADEMY  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2003**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED ACCORDING TO GAGAS</b>
--

\* The comments with an asterisk (\*) denote comments which were previously brought to management's attention in which no corrective action has been taken.

<b>FINDING NUMBER</b>	<b>2003-001</b>
-----------------------	-----------------

**\*Uniform School Accounting System (USAS)**

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

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

We recommend the Academy review the agreed upon requirements of the Community School Contract. The above noted sections of the Ohio Revised Code and the Ohio Administrative Code which are part of the contract are very specific as to this requirement. The Academy is statutorily and contractually obligated to implement and use this system.

<b>FINDING NUMBER</b>	<b>2003-002</b>
-----------------------	-----------------

**\*Developing and Implementing an Effective Monitoring Control System**

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

Some effective monitoring controls include:

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

**HORIZON SCIENCE ACADEMY  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2003  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED ACCORDING TO GAGAS</b>
--

<b>FINDING NUMBER</b>	<b>2003-002</b>
-----------------------	-----------------

**Developing and Implementing an Effective Monitoring Control System (Continued)**

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

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

<b>FINDING NUMBER</b>	<b>2003-003</b>
-----------------------	-----------------

**Development and Implementation of Purchasing Cycle Controls**

The Academy does not require written authorization prior to a purchase being initiated. In addition, verbal authorizations obtained from management are not regularly documented (e.g. as part of the minutes). The Academy does require the use of payment record forms for payment of goods and services. We noted that 17 out of 60 applicable transactions did not have the required payment record form filed. Formal purchase requisitions, purchase orders, or tally sheets were not utilized and there was no process in place to match invoices, purchase orders, tally sheets and checks prior to making payment. Monthly financial statements were not prepared during the year.

In addition, the Board approved a resolution requiring its approval of all expenditures equal to or greater than \$5,000. Based on our testing we noted seven out of nine instances in which a purchase was made above this stipulated amount and was not approved by the Board of Trustees.

We recommend the Academy utilize purchase requisitions and/or purchase orders along with the payment record and obtain proper authorization before committing school funds. In addition the Academy should obtain proper approvals for items to be purchased. Academy personnel should provide written acknowledgment when goods and services are received. Management should compare invoices, purchase orders, and receiving acknowledgments prior to authorizing payment. Board approval of monthly financial statements and the implementation of an accounting package would provide the necessary financial information to allow the Academy to make informed financial decisions.



HORIZON SCIENCE ACADEMY  
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS  
JUNE 30, 2003  
(Continued)

FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED ACCORDING TO GAGAS

FINDING NUMBER	2003-004
----------------	----------

**\*Fixed Assets**

We noted the following control weaknesses over fixed assets:

- A fixed asset accounting system, which maintains a complete fixed asset listing by location, with tag or other identification numbers and other pertinent information had not been developed;
- The Academy had not developed and implemented procedures to record assets as additions when purchased and deletions when disposed of through the year;
- The Academy did not maintain a listing of fixed assets purchased with federal funds to ensure that items purchased with federal funds are used for that specific purpose; and,
- The listing of fixed assets included items which did not meet the capitalization threshold.

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

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

**HORIZON SCIENCE ACADEMY OF CLEVELAND  
CUYAHOGA COUNTY**

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

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Plan Taken; or Finding No Longer Valid; <b>Explain:</b>
2002-001	Findings for Recovery	No	Not repaid
2002-002	Financial Report Filing	Yes	Corrected – Submitted timely
2002-003	Uniform Accounting System	No	Not Corrected – Reissued as 2003-001
2002-004	Personal Loans	Yes	Finding no longer valid due to change in law
2002-005	Checks Made out to Cash	Yes	No longer a valid comment
2002-006	Developing and Implementing an Effective Monitoring Control System	No	Not Corrected – Reissued as 2003-002
2002-007	Development and Implementation of Purchasing Cycle Controls	No	Partially Corrected – Reissued as 2003-003
2002-008	Developing and Implementation of Payroll Processing Procedures	Yes	No longer a valid comment
2002-009	Fixed Assets	No	Not Corrected – Reissued as 2003-004
2002-010	Federal Compliance	Yes	Finding no longer valid



**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**HORIZON SCIENCE ACADEMY OF CLEVELAND**

**CUYAHOGA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JULY 14, 2005**