



**Auditor of State
Betty Montgomery**

**HORIZON SCIENCE ACADEMY OF COLUMBUS
FRANKLIN COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Board of Trustees
Horizon Science Academy of Columbus
Franklin County
1070 Morse Road
Columbus, Ohio 43219

We have audited the accompanying basic financial statements of the Horizon Science Academy of Columbus, Franklin County, Ohio (the School), as of and for the year ended June 30, 2004. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Horizon Science Academy of Columbus, Franklin County, Ohio, as of June 30, 2004, and the changes in its financial position 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 March 31, 2005, 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.

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www.auditor.state.oh.us

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Betty Montgomery
Auditor of State

March 31, 2005

**HORIZON SCIENCE ACADEMY OF COLUMBUS
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

The discussion and analysis of Horizon Science Academy of Columbus, Inc.'s (the School) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2004. Readers should also review the financial statements and notes to enhance their understanding of the School's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2004 are as follows:

- Total net assets increased \$355,867 in fiscal year 2004.
- Due to increased enrollment, total revenue increased from \$1,995,872 in fiscal year 2003 to \$2,098,023 in fiscal year 2004.
- Similarly, total operating expenses increased from \$1,459,037 in fiscal year 2003 to \$1,741,283 in fiscal year 2004.
- Current liabilities increased \$79,742 with current assets increasing \$301,641 in fiscal year 2004.
- The School eliminated its long term debt of \$129,032 in fiscal year 2004.

Using this Financial Report

This annual report consists of a series of financial statements and notes to those statements.

The *Statement of Net Assets* and *Statement of Revenues, Expenses, and Changes in Net Assets* reflect how the School did financially during fiscal year 2004. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting includes all of the current year revenues and expenses regardless of when cash is received or paid.

These statements report the School's *net assets* and changes in those assets. This change in net assets is important because it tells the reader whether the *financial position* of the School has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School's student enrollment, per-pupil funding as determined by the State of Ohio, change in technology, required educational programs and other factors.

The School uses enterprise presentation for all of its activities.

**HORIZON SCIENCE ACADEMY OF COLUMBUS
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

Table 1 provides a summary of the School's net assets as of June 30, 2004 compared to the prior year.

Table 1
Net Assets

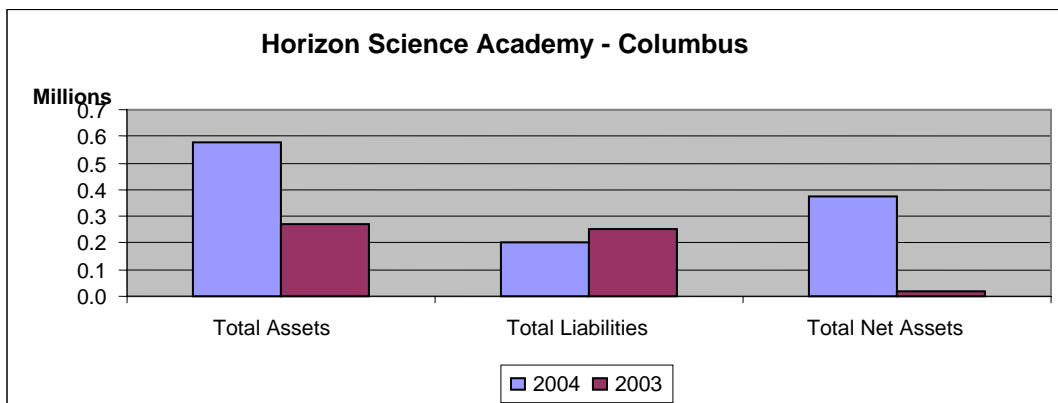
	<u>2004</u>	<u>2003</u>
<u>Assets:</u>		
Cash and Other Current Assets	\$383,953	\$82,312
Non-Current Assets	43,375	43,375
Capital Assets, Net	<u>151,638</u>	<u>146,702</u>
Total Assets	578,966	272,389
<u>Liabilities:</u>		
Current Liabilities	204,646	124,904
Long Term Liabilities	<u>0</u>	<u>129,032</u>
Total Liabilities	204,646	253,936
<u>Net Assets:</u>		
Invested in Capital Assets, net	149,094	138,673
Restricted	43,375	43,375
Unrestricted	<u>181,851</u>	<u>(163,595)</u>
Total Net Assets	<u>\$374,320</u>	<u>\$18,453</u>

Cash and other current assets increased from \$82,312 in 2003 to \$383,953 in 2004. This increase is a result of a significant increase in cash due to operations and an increase in prepaid assets.

In addition, Capital Assets, Net increased by \$4,936 from 2003 to 2004. This is due to the purchase of computer and related equipment and other office equipment/furniture less depreciation on all assets.

Liabilities decreased by \$49,290 due to the elimination of long term debt and increases in current liabilities such as accrued wages and intergovernmental payable.

Total net assets increased by \$355,867. Two factors contribute to this increase. First, the School recorded additional net revenue from federal funding of \$294,379 in fiscal year 2004. Also, the per pupil allotment increased from \$4,949 in fiscal year 2003 to \$5,058 in fiscal year 2004.



**HORIZON SCIENCE ACADEMY OF COLUMBUS
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

Table 2 shows Changes in Net Assets for fiscal year 2004 compared with fiscal year 2003.

Table 2
Changes in Net Assets

	2004	2003
<u>Operating Revenues</u>		
Foundation	\$1,532,227	1,476,218
Disadvantaged Pupil Impact Aid	14,217	17,017
Special Education	34,904	-
Other Operating Revenue	66,922	80,459
<u>Non-Operating Revenues</u>		
Grants	414,754	104,235
Other Non-Operating	34,999	317,943
Total Revenues	2,098,023	1,995,872
 <u>Operating Expenses</u>		
Salaries	919,476	724,358
Fringe Benefits	224,606	180,914
Purchased Services	409,275	376,191
Materials and Supplies	140,478	129,675
Depreciation	39,614	31,276
Other Operating Expenses	7,834	16,623
<u>Non-Operating Expenses</u>	873	5,090
Total Expenses	1,742,156	1,464,127
 Total Increase in Net Assets	 \$355,867	 \$531,745

The revenue generated by a community school is almost entirely dependent on per-pupil allotment given by the State foundation and from federal entitlement programs. Foundation payments made up 73% of revenues for the School in fiscal year 2004. Grant revenues increased substantially due to additional CCIP awards. The growth in funding corresponds to the growth in per pupil allotment. Enrollment (based on FTE) for fiscal year 2003 was 283 compared to 281 in fiscal year 2004. The 5% increase in overall revenue is relative to the per pupil revenue increase of 3%.

Budgeting Highlights

The School is not required to follow the budgetary provisions set forth in Ohio Revised Code Section 5705.

Capital Assets and Debt Administration

Capital Assets

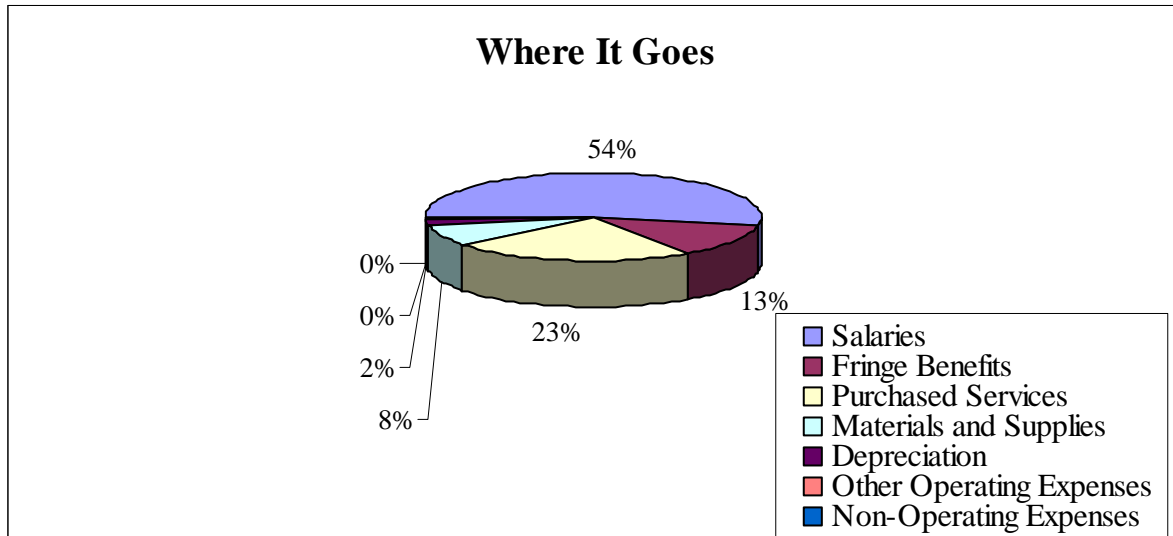
At the end of fiscal year 2004, the School had \$151,638 net of depreciation invested in capital assets. The notes to the basic financial statements provide additional information about the School's capital assets.

**HORIZON SCIENCE ACADEMY OF COLUMBUS
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

Debt

At June 30, 2004, the School had no long term liabilities. The School eliminated all personal loans payable and the long term portion of capital leases and notes payable during fiscal year 2004.



Current Financial Related Activities

The School's financial outlook over the next several years shows continued growth as enrollment is projected to increase.

In October 2004, the School added a new facility on Morse Rd. This site will house the high school, while the Bethel Rd facility will maintain the middle school. This new facility is an integral part of the growth that was required to maintain the program. The new building has a large multipurpose room for the gymnasium and lunch room. Splitting up the middle school and high school will allow for continued growth at both locations.

Contacting the School's Financial Management

This financial report is designed to provide citizens, taxpayers, and creditors with a general overview of the School's finances. Questions concerning any of the information in this report or requests for additional information should be directed to Steve Gulkesen, Treasurer/Business Manager, Horizon Science Academy of Columbus, Inc. 1070 Morse Rd. Columbus, OH 43219.

**HORIZON SCIENCE ACADEMY OF COLUMBUS
FRANKLIN COUNTY**

**STATEMENT OF NET ASSETS
AS OF JUNE 30, 2004**

<u>Assets</u>	
<u>Current Assets</u>	
Cash	\$317,819
Receivables	16,134
Prepays	50,000
Total Current Assets	<u>383,953</u>
<u>Non-Current Assets</u>	
Security Deposit held by Lessor	43,375
Capital Assets (Net of Accumulated Depreciation)	<u>151,638</u>
Total Non-Current Assets	<u>195,013</u>
Total Assets	<u>578,966</u>
<u>Liabilities</u>	
<u>Current Liabilities</u>	
Accounts Payable	21,714
Intergovernmental Payable	68,182
Accrued Wages	109,247
Notes Payable, currently due	2,959
Capital Leases, currently due	2,544
Total Current Liabilities	<u>204,646</u>
<u>Net Assets</u>	
Invested in Capital Assets	149,094
Restricted	43,375
Unrestricted	<u>181,851</u>
Total Net Assets	<u><u>\$374,320</u></u>

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

**HORIZON SCIENCE ACADEMY OF COLUMBUS
FRANKLIN COUNTY**

**STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004**

Operating Revenues

Foundation Payments	\$ 1,532,227
Disadvantaged Pupil Impact Aid	14,217
Special Education	34,904
Extracurricular Revenue	10,169
Instructional Fees	24,069
Lunch	17,818
Other	14,866
Total Operating Revenues	<u>1,648,270</u>

Operating Expenses

Salaries	919,476
Fringe Benefits	224,606
Purchased Services	409,275
Materials & Supplies	140,478
Depreciation	39,614
Other	7,834
Total Operating Expenses	<u>1,741,283</u>

Operating Loss (93,013)

Non-Operating Revenues (Expenses)

Donations	34,999
State Grants	15,914
Federal Grants	398,840
Interest on Capitalized Leases	(67)
Interest on Notes Payable	(806)
Total Non-Operating Revenues (Expenses)	<u>448,880</u>

Change in Net Assets 355,867

Net Assets Beginning of Year (restated) 18,453

Net Assets End of Year \$374,320

The accompanying notes to the basic 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, 2004**

Increase (decrease) In Cash:

Cash Flows from Operating Activities

Cash Received from State of Ohio and Federal Government	\$ 1,610,412
Cash Received from Students	52,056
Cash Received from Other Sources	14,866
Cash Payments to Employees for Services and Benefits	(889,730)
Cash Payments for Employee Benefits	(159,745)
Cash Payments for Contractual Services	(401,298)
Cash Payments to Suppliers for Goods and Services	(190,424)
Cash Payments for other operating expenses	(15,861)
Net Cash provided by Operating Activities	<u>20,276</u>

Cash Flows from Noncapital Financing Activities

Donations Received	34,999
Grants Received	398,621
Payments to officers and employees for personal loans	(123,529)
Interest paid on notes	(806)
Principal payments on notes	(8,270)
Net cash provided by noncapital financing activities	<u>301,015</u>

Cash Flows from Capital and Related Financing Activities

Acquisition of Capital Assets	(44,550)
Interest paid on capital leases	(67)
Principal payments on capital leases	(5,486)
Net Cash used for capital and related financing activities	<u>(50,103)</u>

Net Increase in Cash	271,188
Cash at Beginning of Year	<u>46,631</u>
Cash at End of Year	<u>\$317,819</u>

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

Operating Loss	(\$93,013)
----------------	------------

**Adjustments to reconcile Operating Income to Net
Cash provided by Operating Activities**

Depreciation	39,614
Changes in Assets and Liabilities	
Decrease in Intergovernmental Receivable	25,932
Increase in Prepaids	(40,251)
Increase in Accounts Payable	4
Increase in Intergovernmental Payable	46,974
Increase in Accrued Wages Payable	44,026
Decrease in Compensated Absences Payable	(3,010)
Total Adjustments	<u>113,289</u>
Net Cash provided by Operating Activities	<u>\$20,276</u>

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

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**HORIZON SCIENCE ACADEMY OF COLUMBUS
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Horizon Science Academy of Columbus, Inc. (the School), also known as Horizon Educational Services of Columbus, Inc., 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 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 7 classified and 40 certificated full time teaching personnel who provide services to up to 300 students during the year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic 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's basic financial statements consist of a Statement of Net Assets; a Statement of Revenues, Expenses, and Changes in Net Assets; and a Statement of Cash Flows.

The School uses enterprise accounting to report on its financial activities. Enterprise accounting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods or services.

**HORIZON SCIENCE ACADEMY OF COLUMBUS
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting (Continued)

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the School are included on the Statement of Net Assets. The Statement of Revenues, Expenses, and Changes in Net Assets present increases (e.g., revenues) and decreases (e.g., expenses) in total net assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The full accrual basis of accounting is used for reporting purposes. 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. Revenues resulting from non-exchange transactions, in which the School receives value without directly giving equal value in return, such as grants, entitlements and donations are recognized in the period in which all eligibility requirements have been satisfied. 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. Expenses are recognized at the time 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 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 2004.

E. Prepaid Items

Payments made to vendors that will benefit periods beyond June 30, 2004, 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. Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital 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.

**HORIZON SCIENCE ACADEMY OF COLUMBUS
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Capital Assets and Depreciation (Continued)

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

Useful Life:	
Furniture and Fixtures	10 years
Equipment and Vehicles	5 - 10 years
Leasehold Improvements	5 - 10 years (life of lease)

G. Intergovernmental Revenues

The School currently participates in the State Foundation Program, Special Education 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 2004 school year totaled \$1,996,102.

H. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the School. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the School. All revenues and expenses not meeting this definition are reported as non-operating.

I. 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, 2004, the School elected to pay employees for unused leave, which amounted to \$4,920 and was paid as of June 30, 2004.

**HORIZON SCIENCE ACADEMY OF COLUMBUS
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors, or contracts. The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The School had restricted net assets related to amounts held by a lessor as part of the School's lease agreement.

K. 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 PRINCIPLE AND RESTATEMENT

Change in Accounting Principle

The School has implemented GASB Statement No. 34 "Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments." For the School, GASB 34 changes financial statement classifications (i.e. retained earnings are now referred to as net assets, fixed assets are now referred to as capital assets, etc.) and the inclusion of Management's Discussion and Analysis as required supplementary information.

Restatement

The Balance Sheet as of June 30, 2003, should have presented an additional \$6,056 in intergovernmental payable. As a result of this error, retained earnings/net assets as of June 30, 2003, and net income for the fiscal year ended June 30, 2003, have been restated as follows:

Effect of restatement on Net Assets reported as of June 30, 2003:

Retained Earnings as of June 30, 2003 (as reported)	\$24,509
Additional expenses related to intergovernmental payable	<u>(6,056)</u>
Net Assets as of June 30, 2003 (restated)	\$18,453

Effect of restatement on Net Income reported for the fiscal year ended June 30, 2003:

Net Income for the fiscal year ended June 30, 2003 (as reported)	\$531,745
Additional expenses related to intergovernmental payable	<u>(6,056)</u>
Net Income for the fiscal year ended June 30, 2003 (restated)	\$525,689

**HORIZON SCIENCE ACADEMY OF COLUMBUS
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

4. DEPOSITS

At June 30, 2004, the carrying amount of the School's deposits was \$317,819, and the bank balance was \$390,049. \$100,000 of the total bank balance was insured by FDIC; the remaining \$290,049 was uncollateralized. The School had no investments at June 30, 2004 or during the fiscal year.

5. PREPAIDS

Prepaid assets at June 30, 2004, consisted of prepayment of a furniture purchase in the amount of \$50,000.

6. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Balance June 30, 2003	Additions	Deletions	Balance June 30, 2004
Leasehold Improvements	284,510	34,810	0	319,320
Furniture and Fixtures	41,773	6,940	0	48,713
Equipment	55,256	2,800	0	58,056
Vehicles	7,875	0	0	7,875
Total Capital Assets	<u>389,414</u>	<u>44,550</u>	<u>0</u>	<u>433,964</u>
Less Accumulated Depreciation	(242,712)	(39,614)	0	(282,326)
Capital Assets, Net	<u>\$146,702</u>	<u>\$4,936</u>	<u>\$0</u>	<u>\$151,638</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.

**HORIZON SCIENCE ACADEMY OF COLUMBUS
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

A. School Employees Retirement System (Continued)

Plan members are required to contribute 10% of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current rate is 14% 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 the fiscal year 2004, 9.09% of annual covered salary was the portion to fund pension obligations. For fiscal year 2003, 8.17% 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, 2004, 2003, and 2002 were \$10,555, \$5,184, and \$3,384, respectively; 100% has been contributed for fiscal years 2004, 2003 and 2002.

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, by calling (614) 227-4090, or by visiting the STRS Ohio website at www.strsoh.org.

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.

**HORIZON SCIENCE ACADEMY OF COLUMBUS
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

For the fiscal year ended June 30, 2004, plan members were required to contribute 10% of their annual covered salaries. The School was required to contribute 14%; 13% was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was also 13%. 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 employer contributions.

The School's required contributions for pension obligations for the fiscal years ended June 30, 2004, 2003, and 2002 were \$115,275, \$89,677, and \$49,256 respectively; 99 percent has been contributed for fiscal year 2004; 100 percent has been contributed for fiscal years 2003, and 2002.

9. POSTEMPLOYMENT BENEFITS

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS Ohio), 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 Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. 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 Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year ended June 30, 2004, the STRS Ohio Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. STRS Ohio pays health care benefits from the Health Care Reserve fund. For the School, this amount equaled \$8,569 for fiscal year 2004. STRS Ohio pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Reserve fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268.739 million and STRS Ohio had 111,853 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, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll.

**HORIZON SCIENCE ACADEMY OF COLUMBUS
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

9. POSTEMPLOYMENT BENEFITS (Continued)

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 2004, the minimum pay was established at \$25,400. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2004 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% of annual health care expenses. Expenses for health care at June 30, 2004 were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants 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 2004, the School contracted with Auto Owner 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. There has been no reduction in coverage over the prior year. There have been no settlements exceeding coverage in the last three years.

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 \$2,836 for this premium as of June 30, 2004.

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%.

12. PURCHASED SERVICES

Purchased service expenses during fiscal year 2004 were as follows:

Type	Amount
Professional/Accounting Services	67,785
Rent and Property Services	236,739
Advertising and Communications	62,904
Utilities	29,358
Tuition	2,241
Pupil Transportation	2,713
Other Purchased Services	7,535
Total	409,275

**HORIZON SCIENCE ACADEMY OF COLUMBUS
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

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 assets was \$32,951 at June 30, 2004. Principal payments for fiscal year 2004 totaled \$5,486. 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, 2004.

Fiscal Year end June 30,	Lease Payments
2005	<u>\$2,552</u>
Total Minimum Lease Payments	<u>2,552</u>
Less Interest	<u>(8)</u>
Present Value of Minimum Lease Payments	<u>\$2,544</u>

14. NOTES PAYABLE

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

Lender	Interest	Balance June 30, 2003	Payments	Balance June 30, 2004
National City	10.73%	\$11,229	(\$8,270)	\$2,959

Below is the final payment schedule for fiscal year 2005

Fiscal Year Ending June 30,	Principal	Interest	Total Payments
2005	\$2,959	\$60	\$3,019

The notes from National City are un-collateralized.

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. The School has repaid the loans. These loans were un-collateralized. The following is a summary of that activity:

**HORIZON SCIENCE ACADEMY OF COLUMBUS
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

15. PERSONAL LOANS PAYABLE (Continued)

Lender	Balance June 30, 2003	Additions	Payments	Balance June 30, 2004
H. B. Karayaka	\$45,944		\$45,944	\$0
T. Faki	18,000		18,000	0
S. Ozdemir	24,500		24,500	0
V. Akgun	20,000		20,000	0
T. Ertkin	2,835		2,835	0
M. Demici	10,000		10,000	0
I. Unlusoy	1,500		1,500	0
S. Bicer	750		750	0
Total	\$123,529		\$123,529	\$0

16. OPERATING LEASES

The School entered into an operating lease in fiscal year 1999 for school facilities on Bethel Rd. 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 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:

<u>Fiscal year ending:</u>	<u>Amount to be paid</u>
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. RELATED PARTY TRANSACTIONS

The Personal Loans described in Note 15 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 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, 2004.

**HORIZON SCIENCE ACADEMY OF COLUMBUS
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

18. CONTINGENCIES (Continued)

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 2004 resulted in no overpayment or underpayment by the School.

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. On August 24, 2004, the Court of Appeals rendered a decision that community schools are part of the State Public Educational System and this matter was sent to the Ohio Supreme Court.

The effect of this suit, if any, on the School is not presently determinable.

19. SUBSEQUENT EVENTS

On July 1, 2004, Lucas County Educational Service Center assumed responsibility for sponsorship of the School. 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.

On July 1, 2004, the School added an operating lease for a facility on Morse Road to expand its operations. In connection with the new facility, Horizon Science Academy-Cleveland loaned Horizon Science Academy-Columbus \$250,000 for renovation and repair of the new facility. This is a six percent loan with the total amount to be repaid by June 30, 2005.

The School also entered into several capital lease agreements totaling \$82,564 since June 30, 2004.

In October 2004, the School contracted with Concepts Schools, Inc. to serve as the School's management company.

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**Auditor of State
Betty Montgomery**

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

Board of Trustees
Horizon Science Academy of Columbus
Franklin County
1070 Morse Road
Columbus, Ohio 43219

We have audited the basic financial statements of the Horizon Science Academy of Columbus (the School) as of and for the year ended June 30, 2004, and have issued our report thereon dated March 31, 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 *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 tested its compliance with certain provisions of laws, regulations, contracts and grants, 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 such an opinion. The results of our tests disclosed no instances of noncompliance we must report under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the School's management in a separate letter dated March 31, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting 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 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. 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 the School's management in a separate letter dated March 31, 2005.

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

This report is intended solely 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

March 31, 2005



**Auditor of State
Betty Montgomery**

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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
MAY 12, 2005**