Horizon Science Academy of Toledo

Lucas County, Ohio

Regular Audit

July 1, 2006 through June 30, 2007

Fiscal Year Audited Under GAGAS: 2007

BALESTRA, HARR & SCHERER, CPAs, Inc.
528 South West Street, P.O. Box 687
Piketon, Ohio 45661

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Mary Taylor, CPA
Auditor of State

Board of Trustees
Horizon Science Academy of Toledo
425 Jefferson Avenue
Toledo, Ohio 43604-1060

We have reviewed the *Independent Auditor's Report* of the Horizon Science Academy of Toledo, Lucas County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2006 through June 30, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Horizon Science Academy of Toledo is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

May 19, 2008

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Horizon Science Academy of Toledo

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Independent Auditor's Report

Members of the Board
Horizon Science Academy of Toledo
425 Jefferson Avenue
Toledo, Ohio 43604

We have audited the accompanying financial statements of the business-type activities of the Horizon Science Academy of Toledo, Lucas County, Ohio, (the Academy) as of and for the year ended June 30, 2007, which collectively comprise the Academy's basic financial statements 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 *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 business-type activities of the Academy, as of June 30, 2007, and the changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2008 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. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 2 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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.

Balestra, Harr & Scherer

Balestra, Harr & Scherer, CPAs, Inc.

January 31, 2008

The discussion and analysis of Horizon Science Academy of Toledo's (the School) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2007. 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 2007 are as follows:

- Total Assets were $336,424.
- Total Liabilities were $554,704.
- Total Net Assets decreased $113,605.

Using this Financial Report

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

Reporting the School as a Whole

One of the most important questions asked about the School is, "As a whole, what is the School's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Change in Net Assets, which appear first in the School's financial statements report information on the School as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the School's net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the School's financial health or financial position. Over time, increases or decreases in the School's net assets – as reported in the Statement of Net Assets – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School's operating results. However, the School's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the school, to assess the overall health of the School.

The Statement of Net Assets and the Statement of Revenues, Expenses and Change in Net Assets report the activities of the School, with encompass all the School's services, including instruction, supporting services, community services, and food services. Unrestricted state aid and state and federal grants finance most of these activities.

Table 1 provides a comparison of Net Assets as of June 30, 2007 with Net Assets as of June 30, 2006.

Table 1
Net Assets

	2007	2006
Assets		
Current and Other Assets	$ 121,852	$ 127,483
Capital Assets, Net	214,572	251,792
Total Assets	336,424	379,275
Liabilities		
Current Liabilities	554,704	483,950
Total Liabilities	554,704	483,950
Net Assets		
Invested in Capital Assets	214,572	251,792
Unrestricted	(432,852)	(356,467)
Total Net Assets	$ (218,280)	$ (104,675)

Total assets decreased $42,851. This decrease is due mainly to a decrease in capital assets, net of accumulated depreciation of $37,220. Total liabilities increased $70,754. This increase is due mainly to increases in overdraft liability of $77,704, accounts payable of $25,750, accrued wages and benefits of $10,535, and accrued interest payable of $8,352, offset by decreases in intergovernmental payable and payroll liabilities of $51,587.

Table 2 shows the changes in net assets for the fiscal years 2006 and 2007.

Table 2
Revenues, Expenses and Change in Net Assets

	June 30, 2007	June 30, 2006
Operating Revenue/Expense		
Revenue		
Foundation Payments	$1,705,387	$1,730,172
Food Services	6,882	9,442
Classroom Fees	5,324	11,710
Extracurricular Activities	7,596	15,600
Other Local Revenue	10,144	12,039
Total Operating Revenue	1,735,333	1,778,963
Expense		
Salaries	1,031,498	1,049,304
Benefits	204,670	219,356
Purchased Services	716,498	621,086
Supplies & Materials	156,220	143,917
Other Expenses	43,807	29,270
Depreciation Expense	64,847	62,884
Total Operating Expense	2,217,540	2,125,817
Net Operating Loss	(482,207)	(346,854)
Non-Operating Revenue/Expense		
Restricted Grant-In-Aid- Federal	369,149	321,511
Restricted Grant In-Aid- State	6,393	5,000
Contributions and Donations	1,500	0
Interest Expense	(8,440)	(8,527)
Net Non-Operating Income	368,602	317,984
Net Assets		
Change in Net Assets	(113,605)	(28,870)
Net Assets at Beginning of Year	(104,675)	(75,805)
Net Assets at End of Year	($218,280)	($104,675)

Foundation support is the primary support of the Academy, comprising 98.27% of operating revenue and 80.73% of total revenues. The Academy also received a significant portion of federal grants, which represents 17.48% of total revenue. Salaries and benefits comprise the largest portion of operating expenses, representing 55.75% of total operating expenses. Purchased services also represent a large portion of operating expenses, or 32.31%. Net assets decreased $113,605, resulting mainly from an increase in purchased services expenses.

Table 3 shows the distribution of revenues in fiscal year 2007.

Table 3

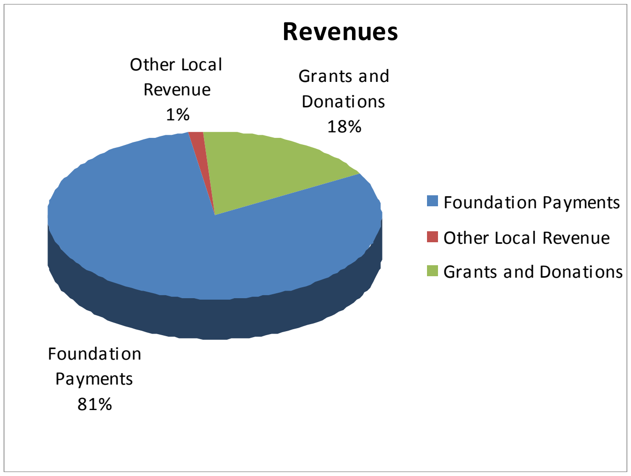
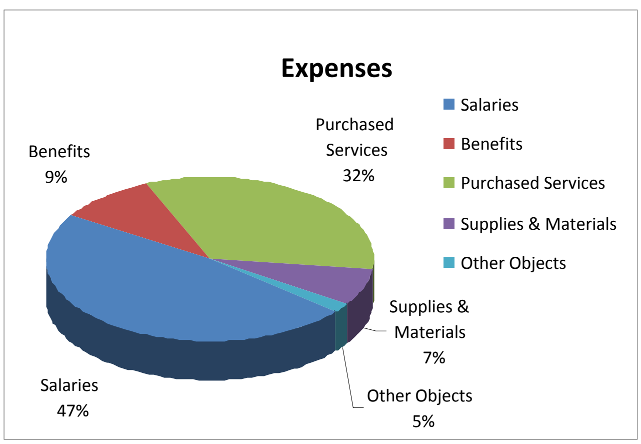


Table 4 shows the distribution of expenses in fiscal year 2007.

Table 4



Capital Assets

At the end of fiscal year 2007 the School had $214,572, invested in furniture, fixtures and equipment, and leasehold improvements (net of $115,411 in accumulated depreciation). Table 5 shows fiscal year 2007 and fiscal year 2006:

Table 5
Capital Assets
(Net of Depreciation)

	2007	2006
Furniture, Fixtures, and Equipment	$ 186,774	$ 210,097
Leasehold Improvements	27,798	41,695
Totals	$ 214,572	$ 251,792

For more information on capital assets see Note 4 to the basic financial statements.

Debt

The School entered into a promissory note with Horizon Science Academy – Cleveland on March 18, 2005, in the amount of $200,000, at an interest rate of 6 percent. The note was used to pay for general operations of the School. As of June 30, 2007, the School has an outstanding balance of $139,184 with the Horizon Science Academy – Cleveland.

Amortization of the above debt, including interest, is scheduled as follows:

Year ending June 30:	HSA - Cleveland
2008	$ 147,535

For more information on the School's debt see Note 10 to the basic financial statements.

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 Amanmyrat Gurdov, Business Manager, Horizon Science Academy of Toledo, Inc., 425 Jefferson Avenue, Toledo, Ohio 43604-1060.

Horizon Science Academy of Toledo
Statement of Net Assets
June 30, 2007

ASSETS:	
Current Assets:	
Intergovernmental receivable	$ 121,852
Total current assets	121,852
Noncurrent Assets:	
Depreciable capital assets	214,572
Total assets	336,424
LIABILITIES:	
Current Liabilities:	
Accounts payable	156,508
Accrued wages and benefits payable	97,365
Intergovernmental payable	62,039
Payroll liabilities	10,769
Note payable	139,184
Accrued interest payable	11,135
Overdraft liability	77,704
Total liabilities	554,704
NET ASSETS:	
Invested in capital assets	214,572
Unrestricted	(432,852)
Total net assets	$ (218,280)

See accompanying notes to the basic financial statements.

Horizon Science Academy of Toledo

Statement of Revenues, Expenses and Change in Net Assets

For the Fiscal Year Ended June 30, 2007

OPERATING REVENUES:	
Foundation payments	$1,705,387
Food services	6,882
Classroom fees	5,324
Extracurricular activities	7,596
Other revenue	10,144
Total operating revenues	1,735,333
OPERATING EXPENSES:	
Salaries	1,031,498
Fringe benefits	204,670
Purchased services	716,498
Materials and supplies	156,220
Depreciation	64,847
Miscellaneous	43,807
Total operating expenses	2,217,540
Operating loss	(482,207)
NON-OPERATING REVENUES (EXPENSES):	
Interest expense	(8,440)
Contributions and donations	1,500
Operating grants - federal	369,149
Operating grants - state	6,393
Total non-operating revenues (expenses)	368,602
Change in net assets	(113,605)
Net assets, beginning of year	(104,675)
Net assets, end of year	($218,280)

See accompanying notes to the basic financial statements

Horizon Science Academy of Toledo
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2007

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from State of Ohio	$1,705,387
Cash Received from Other Operating Revenues	29,946
Cash Payments to Suppliers for Goods and Services	(846,968)
Cash Payments to Employees for Services	(1,020,963)
Cash Payments for Employee Benefits	(256,257)
Other Cash Payments	(43,807)
Net Cash Used for Operating Activities	(432,662)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Federal Grants Received	372,407
State Grants Received	6,393
Contributions and Donations	1,500
Overdraft Liability	77,704
Net Cash Provided by Noncapital Financing Activities	458,004
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Payment for Capital Acquisitions	(27,627)
Interest Expense	(89)
Net Cash Used for Capital and Related Financing Activities	(27,716)
Net Decrease in Cash and Cash Equivalents	(2,374)
Cash and Cash Equivalents at Beginning of Year	2,374
Cash and Cash Equivalents at End of Year	-
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES	
Operating Loss	(482,207)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES	
Depreciation	64,847
Changes in Assets and Liabilities:	
Increase in Accounts Payable	25,750
Decrease in Payroll Liabilities	(7,160)
Increase in Accrued Wages and Benefits Payable	10,535
Decrease in Intergovernmental Payable	(44,427)
Total Adjustments	49,545
Net Cash Used for Operating Activities	$ (432,662)

See accompanying notes to the basic financial statements

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Horizon Science Academy of Toledo, Inc. (the School), is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in grades nine through twelve in Toledo. 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 Lucas County Educational Service Center (the Sponsor) for a period of five years commencing March 11, 2004.

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 facility, which is currently staffed by 30 full and part time personnel who provide services to up to 280 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.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by its measurement focus. 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. The Statement of Cash Flows provides information about how the School finances and meets the cash flow needs of its enterprise activities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting (Continued)

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

The contract between the School and its Sponsor prescribes an annual budget requirement in addition to preparing a 5-year forecast, which is to be updated on an annual basis. Chapter 5705.391(A) of the Ohio Revised Code also requires the School to prepare a 5-year forecast, update it annually, and submit it to the Superintendent of Public Instruction at the Ohio Department of Education.

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 2007.

E. 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. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Improvements are capitalized. The School does not capitalize interest.

Furniture, fixtures, vehicles and equipment are depreciated using the straight-line method over the following estimated useful lives. Improvements to 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
Improvements	5 to 10 years
Heavy Duty Office or Classroom Furniture	10 years
Computers and Other Electronic Equipment	3 years
Vehicles	3 to 10 years

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Intergovernmental Revenues

The School currently participates in the State Foundation Program, Special Education Program, and Federal CCIP Program. Revenues received from the State Foundation Program, Special Education Program and other State programs are recognized as operating revenues whereas revenues from CCIP Program and other State Grants 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.

G. 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 these definitions are reported as non-operating.

H. Compensated Absences

School policy indicates that all leave earned by employees must be used in the current period and balances are not carried forward and, therefore, are not recorded as a liability.

I. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consists of capital assets, net of accumulated depreciation. 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.

J. 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

At June 30, 2007, the carrying balance of the School's deposits was a deficit of $77,704. The deficit was due to a total of outstanding checks at June 30, 2007 of $113,794. Based on the criteria described in GASB Statement No. 3, "Deposit and Investment Risk Disclosures," as of June 30, 2007, none of the bank balance was exposed to custodial risk as discussed below, and all of the bank balance of $35,518 was covered by the Federal Depository Insurance Corporation.

3. DEPOSITS (Continued)

Custodial credit risk for deposits is the risk that in the event of bank failure, the School will not be able to recover its deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in a single financial institution collateral pool at the Federal Reserve Bank or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the School.

4. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	Balance at June 30, 2006	Additions	Disposals	Balance at June 30, 2007
Business-Type Activity				
Capital Assets Being Depreciated				
Furniture and Equipment	$ 304,799	$ 27,627	$ (71,936)	$ 260,490
Leasehold improvements	69,493	-	-	69,493
Total Capital Assets Being Depreciated	374,292	27,627	(71,936)	329,983
Less Accumulated Depreciation				
Furniture and Equipment	(94,702)	(50,950)	71,936	(73,716)
Leasehold improvements	(27,798)	(13,897)	-	(41,695)
Total Accumulated Depreciation	(122,500)	(64,847)	71,936	(115,411)
Total Capital Assets Being Depreciated, Net	$ 251,792	$ (37,220)	$ -	$ 214,572

5. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 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 2007, 10.68% of annual covered salary was the portion 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.

5. DEFINED BENEFIT PENSION PLANS (Continued)

The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005 were $24,117, $27,106 and $18,937, respectively; 81 percent has been contributed for fiscal year 2007 and 100 percent for the fiscal years 2006 and 2005.The unpaid portion of $4,482 is reported in the Statement of Net Assets under Intergovernmental Payables.

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 web site 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 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance. For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent 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, 2007, 2006 and 2005, were $120,358, $114,199 and $97,223, respectively. 99 percent has been contributed for fiscal year 2007 and 100 percent for the fiscal years 2006 and 2005.The unpaid portion of $1,680 is reported in the Statement of Net Assets under Intergovernmental Payables.

5. DEFINED BENEFIT PENSION PLANS (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2007, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages.

6. 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-certificated 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 funded on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS Ohio. All 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 is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School, this amount equaled $8,953 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2007, the balance in the Fund was $4.1 billion. For the year ended June 30, 2007, net health care costs paid by STRS were $265,558,000 and STRS had 122,934 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. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

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, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. 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 2007, the minimum pay was established at $35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled $4,604.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next year. Expenses for health care at June 30, 2006 (the latest information available) were $158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of $295.6 million. SERS has 59,492 participants eligible to receive benefits.

7. RISK MANAGEMENT

A. Property and Liability

The School is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2007, the School contracted with Auto Owners Insurance Company for property and general liability insurance with a $1,000,000 single occurrence limit and $1,000,000 annual aggregate and no deductible. There has been no reduction in coverage from the prior year. There have been no settlements exceeding coverage in any of the last three fiscal 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 $7,000 to BWC as of June 30, 2007. This amount is reported in the Statement of Net Assets under Intergovernmental Payables.

8. 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%.

9. PURCHASED SERVICES

Purchased service expenses during fiscal year 2007 were as follows:

Type	Amount
Professional Services	$ 118,734
Rent and Property Services	311,076
Admin Travel	2,550
Advertising and Communications	33,085
Pupil Transportation	251,053
Total	$ 716,498

10. NOTES PAYABLE

Note payable activity during fiscal year 2007 was as follows:

	Balance at 7/1/2006	Additions	Reductions	Balance at 6/30/2007
Note Payable -HSA - Cleveland	$ 139,184	$ -	$ -	$ 139,184

The School entered into a promissory note with Horizon Science Academy – Cleveland on March 18, 2005, in the amount of $200,000, at an interest rate of 6 percent. The note was used to pay for general operations of the School. As of June 30, 2007, the School has an outstanding balance of $139,184 due to Horizon Science Academy – Cleveland.

10. NOTES PAYABLE (Continued)

Amortization of the above debt, including interest, is scheduled as follows:

Year ending June 30:	HSA - Cleveland
2008	$ 147,535

The School did not make the required scheduled debt payments in accordance with the debt agreement, dated March 18, 2005, with Horizon Science Academy – Cleveland during the fiscal year.

11. OPERATING LEASES

The School entered into a sub-lease for a building facility for the period July 1, 2004 through June 30, 2009 with Concept Schools. On February 28, 2007, Concept Schools transferred the lease to the land lord, Zaleski Secor LLC. According to the terms of the lease, monthly rent is $22,737 with a 3% increase annually. During the audit period payments made to Concept Schools totaled $193,413 and payments made to Zaleski Secor LLC totaled $90,948.

The School entered into a lease for two copiers with Ikon Financial Services. The copiers have a lease period of August 3, 2004 through August 2, 2009.

The following is a schedule of the future payments required under the operating leases as of June 30, 2007.

Fiscal Year Ending June 30,	Facility Lease	Copier Lease
2008	$ 275,572	$ 5,541
2009	283,838	5,541
2010	-	462
Total minimum lease payments	$ 559,410	$ 11,544

12. 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 effect on the financial position of the School. In fiscal year 2007, the School received grants from State and Federal agencies total of $375,542.

B. 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 2007 showed the School was overpaid by $6,806 which will be deducted in fiscal year 2008.

12. CONTINGENCIES (Continued)

C. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001 alleging that Ohio's Community (i.e., Charter) School programs violate the State Constitution and state laws. On April 23, 2004, 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 on November 18, 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. On October 25, 2006, the Supreme Court of Ohio held that Chapter 3314 of the Ohio Revised Code, the state law authorizing establishment and operation of community or "charter" schools, is constitutional both on its face and as applied.

13. SPONSORSHIP AGREEMENT

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 May 2, 2007 the original contract was extended until July 1, 2012. According to the contract, the School pays 1% of its foundation revenues to the Sponsor. This rate will be increased to 1.5% as of July 1, 2009. In fiscal year 2007, the School's compensation to the Sponsor was $9,329.

14. MANAGEMENT COMPANY AGREEMENT

In October 2004, the School contracted with Concepts Schools, Inc. to serve as the School's management company. The contract is renewed automatically every year in one year terms unless the school or the management company decides otherwise. According to the contract, the School transfers 10% of the funds received from the State. In fiscal year 2007, the School paid $75,689 to Concept Schools for management services. The rest of the fees were forgiven by Concept Schools.

15. RELATED PARTIES

The Board members for the School are also Board members for other Horizon Science Academy Schools that are managed by the same management company, Concept Schools.

16. RECEIVABLE

The receivable at June 30, 2007, consisted of a Title II 2007 grant of $121,852. The receivable is considered collectible in full and will be received within one year.

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Horizon Science Academy of Toledo
Lucas County, Ohio
425 Jefferson Avenue
Toledo, Ohio 43604-1060

We have audited the accompanying financial statements of the business-type activities of the Horizon Science Academy of Toledo, Lucas County, Ohio (the Academy), as of and for the year ended June 30, 2007, and have issued our report thereon dated January 31, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting. This item is identified in the accompanying schedule of findings and responses as item 2007-002.

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Academy's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or an other matter that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings and responses as item 2007-001.

We noted certain matters that we reported to management of the Academy in a separate letter dated January 31, 2008.

The Academy's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Academy's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management and members of the Board and is not intended to be and should not be used by anyone other than these specified parties.

Balestra, Harr & Scherer

Balestra, Harr & Scherer, CPAs, Inc.
January 31, 2008

SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2007

FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2007-001

Non-Compliance Citation

Article 6.02 of the loan agreement between Horizon Science Academy of Toledo ("Borrower") and Horizon Education Services, Inc., dba Horizon Service Academy – Cleveland ("Lender") states "the borrower must pay indebtedness and obligations promptly and in accordance with normal terms" which are further specified in Article 3.01 of the loan agreement.

The Academy's management has not made scheduled payments in accordance with the loan agreement. During the fiscal year, the Academy was required to make principal and interest payments totaling $141,968. The Academy made no payments during the fiscal year. In addition, the Academy made no payments toward the shortfall identified in 2006's schedule of findings.

The Academy's management should implement procedures to ensure loan payments are made in accordance with the schedule contained in the loan agreement.

Client Response:

This issue was brought to HSAT's Governing Board meeting on October 15, 2007 and a payment plan has been discussed. HSAT's Governing Board approved to pay $3,000 every month to HSA - Cleveland High School until the balance is cleared.

FINDING NUMBER 2007-002

Significant Deficiency

A financial statement misstatement was identified during the audit that should have been prevented or detected by the Academy's internal controls over financial reporting. The following misstatement was identified:

- Negative cash balances.

The accompanying financial statements were adjusted to reflect correction of this misstatement. The Academy should implement application and monitoring controls over financial reporting to ensure that all financial statement transactions are accurately and completely reported.

Client Response:

The School was expecting to get its intergovernmental receivable by June 30, 2007. Negative cash balance will be corrected as soon as the School gets its funds from the government.

The correction action has been taken on September 7, 2007.

HORIZON SCIENCE ACADEMY OF TOLEDO
LUCAS COUNTY
JUNE 30, 2007

SCHEDULE OF PRIOR AUDIT FINDINGS

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2006-001	Noncompliance Citation: Failure to make loan payments in accordance to loan agreement	No	Reissued as finding 2007-001

Mary Taylor, CPA
Auditor of State

HORIZON SCIENCE ACADEMY OF TOLEDO

LUCAS 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 29, 2008

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