HORIZON SCIENCE ACADEMY-DAYTON
MONTGOMERY COUNTY

REGULAR AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Mary Taylor, CPA
Auditor of State

HORIZON SCIENCE ACADEMY - DAYTON
MONTGOMERY COUNTY

TABLE OF CONTENTS

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INDEPENDENT ACCOUNTANTS' REPORT

Horizon Science Academy-Dayton
Montgomery County
545 Odlin Ave
Dayton, OH 45405

To the Board of Trustees:

We have audited the accompanying basic financial statements of the Horizon Science Academy - Dayton, Montgomery County (the Academy), as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 Academy, as of June 30, 2007, 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.

As discussed in Note 20 to the financial statements, management has elected to change its policy for determining capital assets in 2007. In addition, the accompanying financial statements indicate the Academy has incurred a working capital deficiency of $234,549, an operating loss of $190,816, and an accumulated deficit of $374,101. Management's plans regarding these matters are described in Note 19.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Mary Taylor

Mary Taylor, CPA
Auditor of State

May 21, 2008

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED**

The discussion and analysis of Horizon Science Academy- Dayton, Inc.'s (the Academy) 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 Academy's financial performance.

Financial Highlights:

Key financial highlights for fiscal year 2007 are as follows:

- Total net assets increased by $29,889, which represents a 7.4 percent increase from prior period.
- Total assets decreased $79,414, which represents a 43.4 percent decrease from period ending June 30, 2006.
- The current liabilities decreased by $74,110.
- Liabilities decreased $109,303, which represents a 18.6 percent decrease from period ending June 30, 2006.
- The Academy had total operating revenues of $1,459,570.
- The Academy had total operating expenses of $1,650,386.
- The Academy received federal and state grants including foundation receipts in the amount of $1,490,209.

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 Academy did financially during fiscal year 2007. 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 Academy'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 Academy 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 Academy's student enrollment, per-pupil funding as determined by the State of Ohio, change in technology, required educational programs and other factors.

The Academy uses enterprise presentation for all of its activities.

Table 1 provides a comparison of Academy's net assets for the period ended June 30, 2006 and fiscal year ended June 30, 2007.

Table 1
Net Assets

	2007	2006 Restated
Assets		
Current Assets	$46,537	$118,167
Capital Assets, Net	57,645	65,429
Total Assets	104,182	183,596
Liabilities		
Long-Term Liabilities	197,197	232,390
Other Liabilities	281,086	355,196
Total Liabilities	478,283	587,586
Net Assets		
Invested in Capital Assets Net of Debt	37,900	48,858
Restricted	83,620	
Unrestricted	(495,621)	(452,848)
Total Net Assets	($374,101)	($403,990)

Total assets decreased $79,414, mainly due to a decrease in intergovernmental receivables. Capital assets, net of depreciation decreased by $7,784. Liabilities decreased by $109,303 primarily due to a decrease in the long term liabilities payable and state funding payable. The decrease in unrestricted net assets was $42,773 which was the result of the increase in restricted net assets in fiscal year 2007.

Table 2 provides a comparison of Academy's Revenues & Expenses and Changes in Net Assets for the period ending June 30, 2006 and 2007 fiscal year.

Table 2
Change in Net Assets

	2007	2006 Restated
Operating Revenues:		
State Foundation	$1,257,409	$866,279
Poverty Based Assistance	42,442	
Donated Management Co. Fees	56,105	
Breeze, Inc. Donated Leases	66,650	
Classroom Fees	5,516	5,564
Extracurricular Activities	9,089	
Food Service	8,015	3,032
Other Operating Revenues	14,344	2,028
Total Operating Revenues	1,459,570	876,903

(Continued)

Table 2
Changes in Net Assets
(Continued)

	2007	2006 Restated
Non-Operating Revenues:		
Grants - Federal	185,358	170,880
Grants - State	5,000	3,000
Gifts and Contributions	235	1,037
Donated Loans	36,944	
Total Non-Operating Revenues	227,537	174,917
Total Revenues	1,687,107	1,051,820
Operating Expenses		
Salaries	836,017	678,495
Fringe Benefits	200,201	131,728
Purchased Services	501,435	430,463
Materials and Supplies	62,413	142,814
Depreciation	16,916	15,425
Other	33,404	7,856
Total Operating Expenses	1,650,386	1,406,781
Non-Operating Expenses		
Interest and Fiscal Charges	6,832	1,447
Total Non-Operating Expenses	6,832	1,447
Total Expenses	1,657,218	1,408,228
Change in Net Assets	29,889	(356,408)
Net Assets at Beginning of Year	(403,990)	(47,582)
Net Assets End of Year	($374,101)	($403,990)

There was an increase in revenues of $635,287 mainly in state foundation, federal and state grants and donated leases and management company fees, and an increase in expenses of $248,990 mainly in salaries and fringe benefits, from period ended June 30, 2006. Revenues increased due to an increase in enrollment resulting in more foundation and grant revenues. The increase in expenses was also the result of an increase in enrollment as staff and programs were added.

Table 3 shows the distribution of revenues in Fiscal Year 2007.

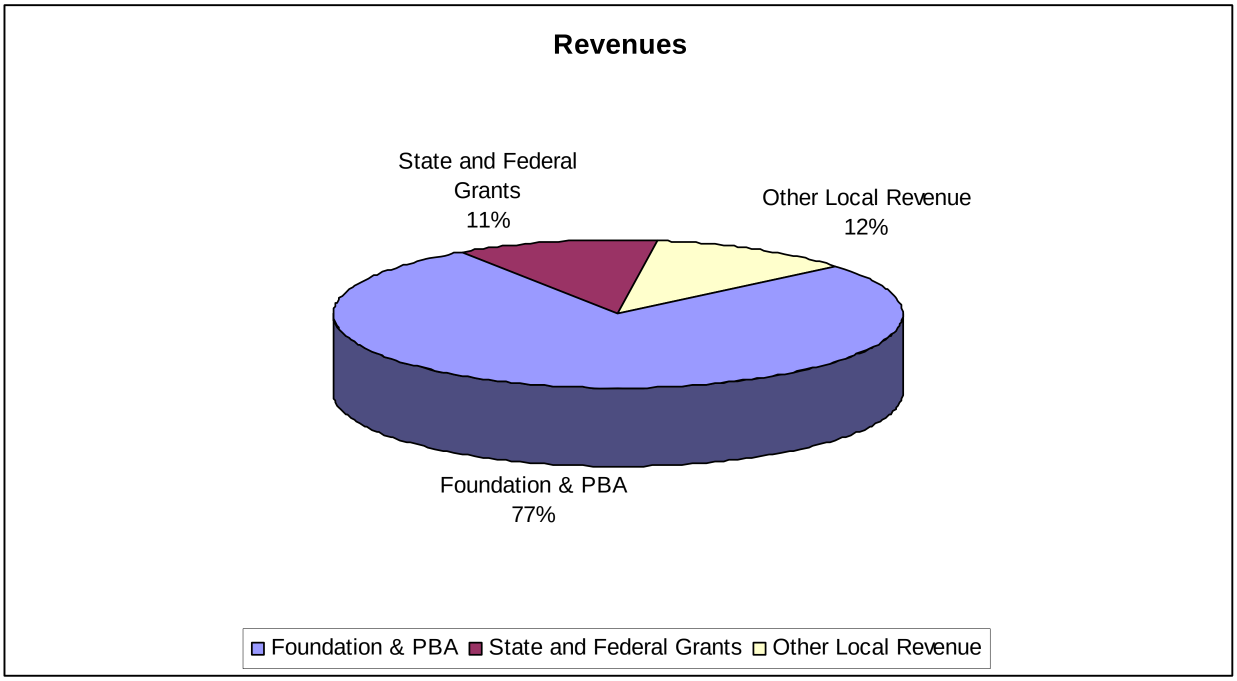
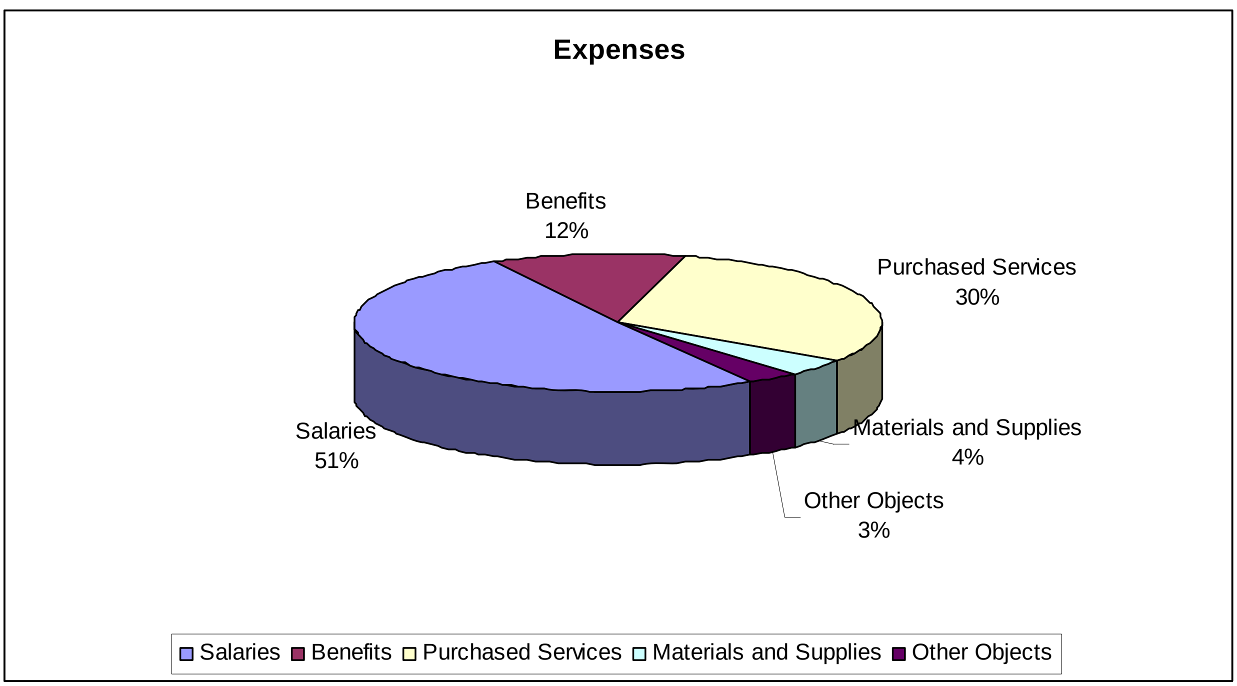


Table 4 shows the distribution of expenses in Fiscal Year 2007.



Capital Assets

At the end of fiscal year 2007 the Academy had $57,645, in capital assets, which represented a decrease of $7,784 from 2006, which was the primarily due to depreciation expense for fiscal year 2007. Table 5 shows capital assets reported at June 30, 2007 and 2006.

(Table 5)
Capital Assets at June 30,
(Net of Depreciation)

	2007	2006
Furniture and Fixtures	$37,985	$37,985
Computers and Equipment	52,001	42,869
Less Accumulated Depreciation	(32,341)	(15,425)
Totals	$57,645	$65,429

Debt

At June 30, 2007, the Academy had $202,253 in notes and a line of credit payable to various entities. Of this amount, $19,697 is due within one year and the remaining amount of $182,556 is due in more than one year. The Academy is not required to pay any interest on the notes payable, however, does accrue interest on the line of credit.

The Academy also has copier capital leases in which $19,937 is still due. $5,296 is due within one year with the remaining amount of $14,641 due in more than one year.

The notes to the basic financial statements provide additional information about the Academy's long-term liabilities.

Current Financial Related Activities

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

While the Academy had a loss in fiscal year 2007, forecasts for growth are good. The Academy's enrollment is up for fiscal year 2008 and the Academy is still eligible for federal sub-grant funds.

Contacting the Academy's Financial Management

This financial report is designed to provide citizens, grantors and potential creditors with a general overview of the Academy's finances. Questions concerning any of the information in this report or requests for additional information should be directed to Omer Yalniz, Fiscal Officer, Horizon Science Academy- Dayton, Inc. 545 Odlin Ave., Dayton, OH 45405.

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HORIZON SCIENCE ACADEMY-DAYTON
MONTGOMERY COUNTY

STATEMENT OF NET ASSETS / ACCUMULATED DEFICIT
AS OF JUNE 30, 2007

Assets:	
Current Assets	
Equity in Pooled Cash and Cash Equivalents	($1,655)
Intergovernmental Receivable	48,192
Total Current Assets	46,537
Non-Current Assets	
Capital Assets (Net of Accumulated Depreciation)	57,645
Total Assets	104,182
Liabilities:	
Current Liabilities	
Accounts Payable	150,441
Accrued Wages	53,628
Payroll Liabilities	44,243
Intergovernmental Payable	7,781
Long-Term Debt and Other Obligations - Current Portion	24,993
Total Current Liabilities	281,086
Non-current Liabilities	
Due In More Than One Year	197,197
Total Non-current Liabilities	197,197
Total Liabilities	478,283
Net Assets / Accumulated Deficit	
Invested in Capital Assets, Net of Related Debt	37,900
Restricted	83,620
Unrestricted	(495,621)
Total Net Assets / Accumulated Deficit	($374,101)

See accompanying notes to the basic financial statements.

HORIZON SCIENCE ACADEMY-DAYTON
MONTGOMERY COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN ACCUMULATED DEFICIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Operating Revenues:	
State Foundation	$1,257,409
Poverty Based Assistance	42,442
Donated Management Co. Fees	56,105
Breeze, Inc. Donated Lease	66,650
Classroom Fees	5,516
Extracurricular Activities	9,089
Food Service	8,015
Other Operating Revenues	14,344
Total Operating Revenues	1,459,570
Operating Expenses	
Salaries	836,017
Fringe Benefits	200,201
Purchased Services	501,435
Materials and Supplies	62,413
Depreciation	16,916
Other	33,404
Total Operating Expenses	1,650,386
Operating Loss	(190,816)
Non-Operating Revenues	
Grants - Federal	185,358
Grants - State	5,000
Gifts and Contributions	235
Donated Loans	36,944
Interest and Fiscal Charges	(6,832)
Total Non-Operating Revenues	220,705
Change in Net Assets	29,889
Net Assets Accumulated Deficit Beginning of Year (Restated, see Note 20)	(403,990)
Net Assets Accumulated Deficit End of Year	($374,101)

See accompanying notes to the basic financial statements.

HORIZON SCIENCE ACADEMY-DAYTON
MONTGOMERY COUNTY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Increase (Decrease) in Cash and Cash Equivalents:	
Cash Flows Used for Operating Activities:	
Cash Received from State Foundation	$1,180,760
Cash Received from Other Operating Activities	22,620
Cash Payments for Employee Services and Benefits	(1,015,347)
Cash Payments for Goods and Services	(418,957)
Other Operating Revenues	14,344
Net Cash Used For Operating Activities	(216,580)
Cash Flows from Noncapital Financing Activities:	
Federal Grants	244,467
State Grants	5,000
Cash Received from Other Non Operating Revenues	235
Short Term Loans	30,000
Repayment of Short Term Loans	(30,000)
Loan Principal Payment	(55,187)
Proceeds of Loans	21,633
Interest and Fiscal Charges	(5,130)
Net Cash Provided by Noncapital Financing Activities	211,018
Cash Flows Used for Capital and Related Financing Activities	
Capital Lease Principal Payments	(4,594)
Capital Lease Interest Payments	(1,702)
Cash Payments for Capital Acquisitions	(1,172)
Net Cash Used for Capital and Related Financing Activities	(7,468)
Net Decrease in Cash and Cash Equivalents	(13,030)
Cash and Cash Equivalents at Beginning of Year	11,375
Cash and Cash Equivalents at End of Year	(1,655)
Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating Loss	(190,816)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation	16,916
Changes in Assets and Liabilities:	
Increase in Intergovernmental Receivable	(509)
Increase in Accounts Payable	55,540
Decrease in Accrued Wages and Benefits	(75)
Decrease In State Funding Payable	(118,582)
Increase in Payroll Liabilities	44,243
Decrease in Intergovernmental Payable	(23,297)
Net Cash Used In Operating Activities	($216,580)

Non Cash Items

During the fiscal year ended June 30, 2007 lease obligations of $66,650, management company fees of $56,105 and loans payable of $36,944 were forgiven and not evidenced by cash transactions.

See accompanying notes to the basic financial statements.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

Horizon Science Academy-Dayton, (the Academy), is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to address the needs of students in grades nine through twelve. The Academy, 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 Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy. The Academy qualifies as an exempt organization under Section 501(c) (3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax-exempt status.

The Academy was approved for operation under contract with the Lucas County Education Service Center (the Sponsor) for a period of five years commencing November 11, 2004.

The Academy 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 Academy's facility, which is currently staffed by 31 full and part time personnel who provide services to up to 216 students during the year.

The Board of Trustees has entered into a management contract with Concept Schools Inc., a not-for-profit corporation, for management services and operation of its Academy. In exchange for its services, Concept Schools receives ten percent of state funds received by the Academy, see Note 15. The Academy is associated with other Horizon Science Academies throughout the State which are defined as related organizations. These organizations are presented in Note 18 to the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Academy 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 Academy 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 Academy does not apply FASB statements issued after November 30, 1989. The more significant of the Academy accounting policies are described below.

A. Basis of Presentation

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

The Academy 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the Academy are included on the Statement of Net Assets/Accumulated Deficit. In accordance with GASB Statement No. 33, after fiscal year 2000, capital contributions from other governments and private sources are recorded as non-operating revenues and reported as retained earnings. The Statement of Revenues, Expenses, and Change in Accumulated Deficit present increases (e.g., revenues) and decreases (e.g., expenses) in total net assets/accumulated deficit.

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 Academy 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 traditional public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Section 5705, unless specifically provided in the Academy’s contract with its Sponsor. The contract between the Academy and its Sponsor requires a spending plan for each year of the contract; however, the budget does not have to follow the provisions of Ohio Rev. Code Section 5705, except for section 5705.391 as it relates to five-year forecasts.

D. Cash

All monies received by the Academy are maintained in a demand deposit account. The Academy 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 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 Academy does not capitalize interest.

Capital assets include such items include such items as land, buildings, equipment and fixtures that are tangible in nature with a useful life of greater than three years and satisfies the threshold test. The Academy distinguishes between inventory assets such as furniture and equipment and capitalized assets such as infrastructure and improvements to the facilities that are not mobile. The threshold for inventory assets is $1,000. If an inventory asset consists of several components whose combined cost is at or over $1,000 then it will be regarded and recorded as a single item. The threshold for capitalized assets (including labor, equipment and materials) is $10,000.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Furniture, fixtures and equipment are depreciated using the straight-line method over the following estimated useful lives.

Useful Life:

Buildings	30 years
Improvements	3 to 10 years
Heavy Duty Office or Classroom Equipment	10 years
Computers and Other Electronic Equipment	3 years
Vehicles	3 to 10 years

F. 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 Academy or through external restrictions imposed by creditors, grantors, or contracts. The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. For fiscal year 2007 the Academy had $83,620 in restricted net assets none of which have been restricted by enabling legislation.

G. Intergovernmental Revenues

The School currently participates in the State Foundation Program, Poverty Based Assistance, and the State Special Education Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

The amount of these grants is directly related to the number of students enrolled in the Academy. The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the Academy. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated.

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 Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

Amounts awarded under these programs for the 2007 school year totaled $1,490,209.

H. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the statement of net assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Operating Revenues and Expenses

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

J. Compensated Absences

The Academy's policy indicates that all leave earned by employees must be used in the current period and balances are not carried forward. Full time employees who do not use all of their leave will receive one hundred dollars ($100) for each unused day.

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. DEPOSITS

At June 30, 2007, the carrying amount of the Academy's deposits was ($1,655). Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2007 the bank balance was $6,660. 100% of the Academy's bank balance was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the Academy's deposits may not be returned. 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 single financial institution collateral pools at Federal Reserve Banks, 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 Academy.

The Academy has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Academy or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

The Academy had no investments at June 30, 2007 or during the fiscal year.

4. CAPITAL ASSETS

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

	Restated Beginning Balance	Additions	Deletions	Ending Balance
Furniture & Fixtures	$37,985			$37,985
Computers & Equipment	42,869	$9,132		52,001
Total Capital Assets	80,854	9,132		89,986
Less Accumulated Depreciation	(15,425)	(16,916)		(32,341)
Net Capital Assets	$65,429	($7,784)	$0	$57,645

5. PURCHASED SERVICES

Purchased service expenses during fiscal year 2007 were as follows:

Professional Services	$94,976
Rent and Property Services	258,095
Travel	4,216
Advertising and Communications	27,254
Utilities	26,776
Contract Labor and Food Services	79,775
Pupil Transportation	9,990
Other Purchased Services	353
Total Purchased Services	$501,435

6. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Academy 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 43215-3746.

Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007 was $5,755 and $8,462, for June 30, 2006. 68 percent has been contributed for fiscal year 2007 and 100 percent for fiscal year 2006.

6. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

The Academy 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.

For the fiscal year ended June 30, 2007, plan members were required to contribute 10% of their annual covered salaries. For fiscal year 2007 the Academy was required to contribute 14%; 13% was the portion used to fund pension obligations. For fiscal year 2006, 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 Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007 was $111,288 and $92,117 for 2006. 68 percent has been contributed for fiscal year 2007 and 100 percent for fiscal year 2006. Contributions to the DC and Combined Plans for fiscal year 2007 were $14,120 made by the Academy and $13,447 made by the plan members.

7. POST-EMPLOYMENT BENEFITS

The Academy 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 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 costs 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 shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year ended June 30, 2007, 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 Academy, this amount equaled $7,949 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) the balance in the Fund was $3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS Ohio were $282,743,000 and STRS Ohio had 119,184 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 Academy, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled $2,881.

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.

8. RISK MANAGEMENT

A. Property and Liability

The Academy is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2007, the Academy contracted with the Cincinnati 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 two years.

B. Workers Compensation

The Academy pays the State Workers Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State. The Academy owed $4,703 for this premium as of June 30, 2007.

9. EMPLOYEE MEDICAL AND DENTAL BENEFITS

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

10. LONG-TERM DEBT AND OTHER OBLIGATIONS

Long-term liability activity for the year ended June 30, 2007, was as follows:

	Restated Beginning Balance	Additions	Deletions	Ending Balance	Due Within One - Year
Notes Payable					
Breeze, Inc. Note Payable – 0.00 percent	$106,000			$106,000	
Concepts School Note Payable – 0.00 percent	113,500		($ 36,944)	76,556	
Horizon Science Academy Columbus Note – 0.00 percent		$10,000	(10,000)		
Horizon Science Academy Cleveland Note – 6.0 percent		20,000	(20,000)		
Line of Credits					
National City Bank Line of Credit #1 – Prime + 0.50 percent	53,251	875	(54,126)		
National City Bank Line of Credit #2 – Prime #3.50 percent		20,758	(1,061)	19,697	$19,697
Capital Leases					
Copier Capital Lease – 7.73 percent	16,571		(3,679)	12,892	3,973
Copier Capital Lease – 9.25 percent		7,960	(915)	7,045	1,323
Total Long-Term Debt and Other Obligations	$289,322	$59,593	($126,725)	$222,190	$24,993

10. LONG-TERM DEBT AND OTHER OBLIGATIONS (Continued)

A. Breeze, Inc. Note Payable

The Academy entered into an interest free note with Breeze, Inc. in the amount of $106,000 for the purpose of paying the Academy's operating expenses and to facilitate cash flow on a short-term basis. The Academy is to make four (4) equal installments of $26,500 commencing on January 1, 2009 with a final payment due by December 31, 2009.

B. Concept Schools Note Payable

The Academy entered into an interest free note with Concept Schools in the amount of $113,500 for the purpose of paying the Academy's operating expenses and to facilitate cash flow on a short-term basis. On June 29, 2007, Concept Schools approved the conversion of $36,944 of the note into a donation. The note is to be paid in full by June 30, 2009.

C. Horizon Science Academy – Columbus Note Payable

In fiscal year 2007, the Academy entered into a related party transaction note with Horizon Science Academy – Columbus, in the amount of $10,000 for the purpose of paying the Academy's operating expenses. The note was paid in full during fiscal year 2007. Also see Note 18.

D. Horizon Science Academy – Cleveland Note Payable

In fiscal year 2007, the Academy entered into a related party transaction note with Horizon Science Academy – Columbus, in the amount of $20,000 for the purpose of paying the Academy's operating expenses. The note was paid in full during fiscal year 2007. Also see Note 18

E. National City Bank Line of Credit - #1

During 2006 the Academy received lines of credit from National City Bank in the amount of $55,378 for the purpose of paying the Academy's operating expenses and to facilitate cash flow on a short-term basis. The interest rate on the line of credit is prime plus 0.50 percent. This line of credit was paid in full during fiscal year 2007.

F. National City Bank Line of Credit - #2

The Academy received a line of credit from National City Bank up to the amount of $20,000. The interest rate on the line of credit is prime plus 3.50 percent. Minimum monthly payments are to be made based on a monthly activity statement from National City Bank.

G. Copier Capital Lease – Toshiba Copier

The Academy entered into a five year lease agreement with Dollar Leasing Corp. for the purpose of leasing a Toshiba 810 copier valued at $19,980. The interest rate on the lease is 7.73 percent. See note 11.

H. Copier Capital Lease – Sharp Copier

The Academy entered into a five year lease agreement with Dollar Leasing Corp. for the purpose of leasing a Sharp 2700 copier valued at $7,960. The interest rate on the lease is 9.25 percent. See note 11.

10. LONG-TERM DEBT AND OTHER OBLIGATIONS (Continued)

Annual debt service requirements to maturity are as follows:

Breeze, Inc. Note Payable

Fiscal Year Ended June 30	Principal	Interest	Total
2009	$ 53,000		$ 53,000
2010	53,000		53,000
Total	$106,000		$106,000

Concept Schools Note Payable

Fiscal Year Ended June 30	Principal	Interest	Total
2009	$76,556		$76,556
Total	$76,556		$76,556

National City Bank Line of Credit

Fiscal Year Ended June 30	Principal	Interest	Total
2008	$19,697		$19,697
Total	$19,696		$19,697

11. CAPITAL LEASES

During fiscal year 2006, the Academy entered into a capitalized lease for the purchase of a Toshiba E810 copier. During fiscal year 2007, the Academy entered into a capitalized lease for the purchase of a Sharp 2700 copier valued at $7,960. Both 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.

The copier acquired by the lease has been capitalized in the statement of net assets in the amount of $19,980 for the Toshiba and $7,960 for the Sharp which is equal to the present value of the minimum lease payments at the time of acquisition. A corresponding liability was split between long-term liabilities due within one year and long-term liabilities due in more than one year on the statement of net assets. Principal payments in fiscal year 2007 totaled $4,594.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2007.

Fiscal Year Ended June 30	
2008	$6,776
2009	6,776
2010	6,776
2011	1,920
2012	960
	23,208
Less Amount Representing Interest	(3,271)
Present Value of Net Minimum Lease Payments	$19,937

12. OPERATING LEASES

The Academy entered into a rental agreement with Breeze, Inc. in fiscal year 2006 for school facilities on Odlin Ave for a three year period. On December 21, 2006, an Amendment, Assignment and Assumption of Lease between Our lady of Mercy Church, Breeze, Inc., and Horizon Science Academy – Dayton was executed. The terms of the agreement were $300,000, payable in equal monthly installments of $25,000 due the first day of each month, which remained unchanged in the amendment. For each successive year the annual rent shall increase by four percent (4%) over the rent of the preceding year. At the end of Fiscal year 2007 Breeze Inc., wrote off $66,650 in unpaid rent. The Academy still owed Breeze, Inc. $10,000 for 2007.

13. CONTINGENCIES

A. Grants

The Academy 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 Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2007.

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 Academy. 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 of fiscal year 2007 determined that ODE owed the Academy $509. This amount has been included as part of Intergovernmental Receivables on the financial statements.

C. Litigation

A lawsuit entitled ***Beverly Blount-Hill, et al. v. State of Ohio, et al., Case #: 3:04CV197*** was filed in the U.S. District Court, Southern District of Ohio, Western Division in October 2004. The suit alleges that the funding provisions of the Ohio Community Schools Act, O.R.C. Section 3314, violate both the Ohio and Federal constitutions. If the funding scheme is determined to be unconstitutional, it could have financial ramifications for all community/charter schools. The case is still currently pending, and the effect of this suit, if any, on the Academy cannot presently be determined.

14. SPONSORSHIP AGREEMENT

On November 11, 2004, Lucas County Educational Service Center assumed responsibility for sponsorship of the Academy. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The community school contract requires one percent of the total State foundation payment to be transferred to the Lucas County Educational Service Center for sponsorship fees. Total cash payments made during the fiscal year 2007 were $9,781 and an additional $2,026 has been reported as payable to the Sponsor.

15. MANAGEMENT COMPANY AGREEMENT

On January 1, 2005, the Academy entered into a contract with Concept Schools for educational services and operation of the Academy. The contract is set up to automatically renew yearly based upon agreement of both parities. In exchange for its services, Concept Schools receives 10% of state funds received by the Academy. During fiscal year 2007, Concept Schools did not charge the Academy for all its management fees to reduce the financial burden on the Academy in the early years of operation.

Terms of the contracts require Concept Schools to provide the following:

A. Human Resources;

B. Professional Development for Academy Board;

C. Professional Development for Academy Administrators and Teachers;

D. Accreditation and Recognition (including contract renewal);

E. Strategic Planning;

F. Grant Writing;

G. After School Program Design;

H. Technology Support;

I. Database Management (student related);

J. Facility Management;

K. Marketing Materials;

L. Curriculum Development;

M. Public Relation Services, and;

N. Purchasing Services

The Academy's management company, Concept Schools, Inc., waived management fees in the amount the $56,105. For fiscal year 2007 the Academy still owed $61,854 in management fees.

16. JOINTLY GOVERNED ORGANIZATON

The Academy is a participant in the Metropolitan Educational Council (MEC) which is a computer consortium. MEC is a not-for-profit educational council whose primary purpose and objective is to contribute to the educational services available to school districts in Franklin County and surrounding areas by cooperative action membership. The governing board consists of a representative from each of the Franklin County districts. Districts outside of Franklin County are associate members and each county selects a single district to represent them on the governing board. MEC is its own fiscal agent. MEC provides computer services to the Academy.

17. RECEIVABLES

Receivables at June 30, 2007 consisted of intergovernmental receivables in the amount of $48,192. All receivables are considered collectible in full and are expected to be received within one year. A summary of intergovernmental receivables follows:

National School Lunch	$9,301
Title I Grant	31,820
Title II-A Teacher Quality Grant	2,064
Title II-D Technology Grant	792
Title V Innovative Programs Grant	93
Title VI-B IDEA Grant	3,613
State Foundation - FTE Adjustment	509
Total Intergovernmental Receivable	$48,192

18. RELATED PARTIES

A. Governing Board and Management Company

The Board members for the Academy are also Board members for other Horizon Science Academy Schools throughout Ohio that are managed by the same management company, Concept Schools. Members of the Board of trustees are not compensated. The Management Company receives 10% of state funds as management company fee. See Note 15.

B. Breeze, Inc.

The Academy entered into a rental agreement with Breeze, Inc. in fiscal year 2006 for school facilities on Odlin Ave for a three year period. On December 21, 2006, an Amendment, Assignment and Assumption of Lease between Our lady of Mercy Church, Breeze, Inc., and Horizon Science Academy – Dayton was executed. (See Note 12). Breeze, Inc. is a property management company owned by Mr. Vedat Akgun, an employee of Concept Schools, Inc., the Academy's management company. Total rent payments for the year ended June 30, 2007 to Breeze, Inc. were $53,350. On June 27, 2007, Breeze Inc., forgave $66,650 in unpaid rent. The Academy still owes Breeze, Inc. $10,000 for unpaid rent for fiscal year 2007. See Note 12.

C. Breeze, Inc. Note Payable

The Academy entered into an interest free note with Breeze, Inc. in the amount of $106,000 for the purpose of paying the Academy's operating expenses and to facilitate cash flow on a short-term basis. The Academy is to make four (4) equal installments of $26,500 commencing on January 1, 2009 with a final payment due by December 31, 2009. See Note 10.

D. Concept Schools Note Payable

The Academy entered into an interest free note with Concept Schools in the amount of $113,500 for the purpose of paying the Academy's operating expenses and to facilitate cash flow on a short-term basis. During 2007, the Management Company forgave $36,944 of this loan amount. The note is to be paid in full by June 30, 2009. See Note 10.

18. RELATED PARTIES (Continued)

E. Horizon Science Academy – Columbus Note Payable

In fiscal year 2007, the Academy entered into a related party transaction note with Horizon Science Academy – Columbus, in the amount of $10,000 for the purpose of paying the Academy's operating expenses. The note was paid in full during fiscal year 2007. See Note 10.

F. Horizon Science Academy – Cleveland Note Payable

In fiscal year 2007, the Academy entered into a related party transaction note with Horizon Science Academy – Columbus, in the amount of $20,000 for the purpose of paying the Academy's operating expenses. The note was paid in full during fiscal year 2007. See note 10.

19. MANAGEMENT'S PLANS REGARDING CONTINUED EXISTENCE

As shown in the accompanying financial statements, the Academy has an accumulated deficit of $374,101 at June 30, 2007, which is primarily due to $222,190 in outstanding debt, and $256,093 in payables for outstanding purchases for goods and services received in fiscal year 2007 that have not been paid for and for wages and benefits owed to employees and various agencies for work performed in fiscal year 2007.

The Academy's long range plans are to seek increased enrollment.

20. ACCOUNTING CHANGE

Beginning net assets were restated at July 1, 2006 due to the Academy adopting a new capital asset policy that changed the capitalization threshold to $1,000 and allowed the Academy to capitalize group of similar assets whose combined cost met the capitalization threshold. Net Assets at July 1, 2006 were also restated due to accounting change in recording loans payable. This restatement had the following effect on net assets at July 1, 2006:

Ending Net Assets June 30, 2006	($438,476)
Restatement of Capital Assets	32,526
Restatement of Loan Payable	1,960
Beginning Net Assets July 1, 2006	($403,990)

21. NONCOMPLIANCE

The Academy did not comply with requirements regarding financial reporting.

Mary Taylor, CPA
Auditor of State

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

Horizon Science Academy-Dayton
Montgomery County
545 Odlin Ave
Dayton, Ohio 45405

To the Board of Trustees:

We have audited the financial statements of the business-type activities of Horizon Science Academy-Dayton, Montgomery County, (the Academy), as of and for the year ended June 30, 2007, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated May 21, 2008, wherein we noted the Academy has incurred a working capital deficiency of $234,549, an operating loss of $190,816, and an accumulated deficit of $374,101. We also noted that the Academy has elected to change its policy for determining capital assets in 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we have not opined 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 certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in 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 Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Academy's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2007-001 and 2007-002.

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Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Academy's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the 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 the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, of the significant deficiencies described above, we believe finding number 2007-001 is also a material weakness.

We also noted certain internal control matters that we reported to the Academy's management in a separate letter dated May 21, 2008.

Material Noncompliance

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2007-001.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated May 21, 2008.

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

We intend this report solely for the information and use of management, the Board of Trustees and the sponsor. It is not intended for anyone other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

May 21, 2008

SCHEDULE OF FINDINGS
JUNE 30, 2007

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

FINDING NUMBER 2007-001

Noncompliance and Material Weakness

Ohio Revised Code Section 3314.03 (B)(5) requires community schools submit a comprehensive plan for the school to the sponsor that includes specific internal financial controls. In addition, **AOS Bulletin 2000-005** states that the management of each community school is responsible for the design and implementation of an internal control process that provides reasonable assurance of the integrity of its financial reporting, the safeguarding of assets, the efficiency and effectiveness of its operations, and its compliance with applicable laws, regulations and contracts.

The Academy's Financial Report for 2007 contained errors which resulted in numerous reclassifications and adjustments to correctly report the financial activity during and at the end of the year as follows:

Statement of Net Assets/Accumulated Deficit:
- Accrued Wages were overstated $19,402;
- Capital Lease Payable was overstated by $5,316;
- Intergovernmental Payable was understated by $7,781;
- Total Long Term Liabilities were overstated by $216,683;
- Due Within One Year was understated $24,993;
- Due In More Than One Year was understated $197,197;
- Invested In Capital Assets, Net of Related Debt was understated $37,900;
- Restricted was understated $83,620 and;
- Unrestricted (Deficit) was understated $109,899.

Statement of Revenues, Expenses and Changes in Accumulated Deficit:
- State Foundation was overstated $42,442;
- Poverty Based Assistance was understated $42,442;
- Donated Management Co. Fees was understated $56,105;
- Donated Lease, Breeze Inc. was understated $66,650;
- Salaries were overstated $12,894;
- Fringe Benefits were understated $1,273;
- Purchased Services were understated $86,453;
- Other Expenses were understated $1,960;
- Gifts and Contributions were overstated $105,772 and;
- Donated Leases were understated $36,944.
- Beginning equity was understated by $34,486.

Statement of Cash Flows:
- Cash Received from other Operating Activities was overstated $15,866;
- Cash Payments for Goods and Services were overstated $29,258;
- Other Operating Revenues was understated $14,344;
- Contributions and Donations of $27,982 had to removed from Non Capital Financing Activities;
- Short Term Loans proceeds $30,000 and repayment of Short Term Loans ($30,000) had to added to Non-capital Financing Activities;
- Loan Proceeds for $21,633 and Loan Principal Payments ($55,187) had to be added to Non-capital Financing Activities;
- Interest and Fiscal Charges in the amount of $5,130 were added to Non-capital Financing Activities;

FINDING NUMBER 2007-001 (Continued)

- Capital Lease Principal Payments were reduced and Interest Payments were added to Capital and Related Financing Activities for $1,385 and $1,707 respectively;
- Cost of capital acquisitions in amount of $1,172 was added to Capital and Related Financing Activities;
- Cash Flow From Investing Activities in amount of ($40,385) was removed and reclassified to Cash Flow From Non-capital Financing Activities.

In addition, several errors were noted in the Management Discussion and Analysis (MD&A) and the Notes to the Financial Statements. Adjustments to correct the significant errors above are reflected in the financial statements, MD&A and notes.

Procedures should be developed and implemented to provide for the integrity of the financial records. Additionally, the amounts in the financial statements, notes to the financial statements, and MD&A should be supported by the appropriate documentation.

Officials' Response: *Most of the adjustments are due to different classifications of the accounts by discretion. We used the same template as we have been using for the other Horizon Academies. We believe this finding should be completely removed or should be reduced to reflect only the adjustment that affects the financial statements.*

Auditor of State's Analysis: *The financial statements, as presented, were not in accordance with Generally Accepted Accounting Principles. There were significant errors reflected in the financial statements, Management Discussion and Analysis, and notes to the financial statements. The above adjustments were made to properly present the client's financial position.*

FINDING NUMBER 2007-002

Significant Deficiency – Board's Failure to Approve New Debt

The Academy entered a second line of credit agreement with National City Bank to be used for the Academy's operating expenses and to facilitate cash flow on a short term basis. The amount of this line of credit was $20,000. Additionally, the Academy entered a capital lease agreement for a copier with Dollar Leasing Corporation. The copier lease agreement was for five years and totaled $7,960.

Neither of these two items was approved by the Board of Trustees. Failure of the Board of Trustees to approve debt could result in the Academy participating in a commitment to repay monies of which they do not want to be associated or for which they were unaware. The Board of Trustees should formally approve all debt and document that approval in the Board minutes.

Additionally, the Academy borrowed $10,000 from Horizon Science Academy – Columbus during April 2007 that was repaid in May 2007. Although this loan was approved by the Board, no note was signed.

The Academy should obtain Board approval within their established policy guidelines. Failure to do so may result in the Academy exceeding their budget and not having funds to pay for items that were included in the budget. The Academy should make every effort to adhere to the established policies and procedures for processing disbursements. In addition, duly singed notes should be entered into when money is borrowed. Failure to do so could result in a misunderstanding over interest rates, amounts borrowed, payment methods and due dates, between the lender and the borrower.

Officials' Response: *The School administration will be taking necessary actions to avoid such failures in the future.*

HORIZON SCIENCE ACADEMY - DAYTON
MONTGOMERY COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2007

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2006-001	Finding for Recovery – Reimbursement to management company for immigration fees for dependents totaling $2,392.75	Yes – Repaid	
2006-002	Finding for Recovery – Overpayment to an employee for unused leave amounting to $312.50.	Yes - Repaid	
2006-003	Finding for Recovery – Overpayment to an employee for unused leave amounting to $200.	Yes - Repaid	
2006-004	**ORC 5705.391(B) –** Failure to prepare and file five-year projections.	Yes	Partially Corrected / Partially No Longer Valid
2006-005	**ORC 3314.03 (B)(5) and AOS Bulletin 2000-005** – Multiple errors, reclassifications, and adjustments to the financial statements, notes and Management's Discussion and Analysis.	No	Not Corrected - Repeated as finding number 2007-001
2006-006	Management Company invoicing the school for more than the contacted amount.	Yes	
2006-007	Failure of the Governing Board to approve debt commitments.	No	Not Corrected - Repeated as finding number 2007-002
2006-008	Having a material operating loss, working capital deficiency and accumulated deficit.	Yes	Finding No Longer Valid

Mary Taylor, CPA
Auditor of State

HORIZON SCIENCE ACADEMY

DAYTON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JUNE 19, 2008

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