HORIZON SCIENCE ACADEMY CINCINNATI
HAMILTON COUNTY

REGULAR AUDIT

FOR THE PERIOD ENDED JUNE 30, 2007

Mary Taylor, CPA
Auditor of State

HORIZON SCIENCE ACADEMY - CINCINNATI
HAMILTON COUNTY

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Mary Taylor, CPA
Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Horizon Science Academy-Cincinnati
Hamilton County
1055 Laidlaw Ave
Cincinnati, OH 45237

To the Board of Trustees:

We have audited the accompanying basic financial statements of the Horizon Science Academy - Cincinnati, Hamilton County, Ohio (the School), 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 School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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 School, 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.

The accompanying financial statements indicate the School has incurred an operating loss of $669,136, negative net working capital of $215,491 and an accumulated deficit of $138,631. However the School's non-operating income exceeded non-operating expenses resulting in a positive change in net assets of $102,066 for the year ended June 30, 2007. Management's plans regarding these matters are described in Note 17.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 2009, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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.

Corporate Centre of Blue Ash / 11117 Kenwood Rd. / Blue Ash, OH 45242
Telephone: (513) 361-8550 (800) 368-7419 Fax: (513) 361-8577
www.auditor.state.oh.us

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 13, 2009

The discussion and analysis of Horizon Science Academy- Cincinnati, Inc.'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 net assets increased by $102,066
- The School had total operating revenues of $1,045,122
- The School had total operating expenses of $1,714,258
- The current liabilities increased by $11,711
- The School received Federal and State Grants totaling of $555,534

At June 30, 2007, register cash balance of the school was ($85,920). The negative balance was due to un-cleared checks towards grants receivables at the end of the fiscal year. The School had a total of $102,913 in grants receivables towards Charter School Start-up Grant, Title Grants and TANF grant from ODE and Hamilton County. The School received PCSP (Start-up Grant) grant of $300,000 in the fiscal year. Again at June 30, 2007, total capital assets net of depreciation were $265,976 with an accumulated depreciation of $59,321. In the fiscal year the School capitalized leasehold improvements of $155,500. Those improvements included remodeling and painting of additional classrooms. In the fiscal year the School made loan payments of $30,000 to individuals and $10,000 to Concept Schools reducing the balances to $2,250 and $47,000 respectively. At the same time, the School's current liabilities increased by $11,710.

Using this Financial Report:

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

The *Statement of Net Assets* and *Statement of Revenues, Expenses, and Changes in Net Assets* reflect how the School did financially during fiscal year 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 School's *net assets* and changes in those assets. This change in net assets is important, because it tells the reader whether the *financial position* of the School has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School's student enrollment, per-pupil funding as determined by the State of Ohio, change in technology, required educational programs and other factors.

The School uses enterprise presentation for all of its activities.

Table 1 shows the distribution of revenues in Fiscal Year 2007.

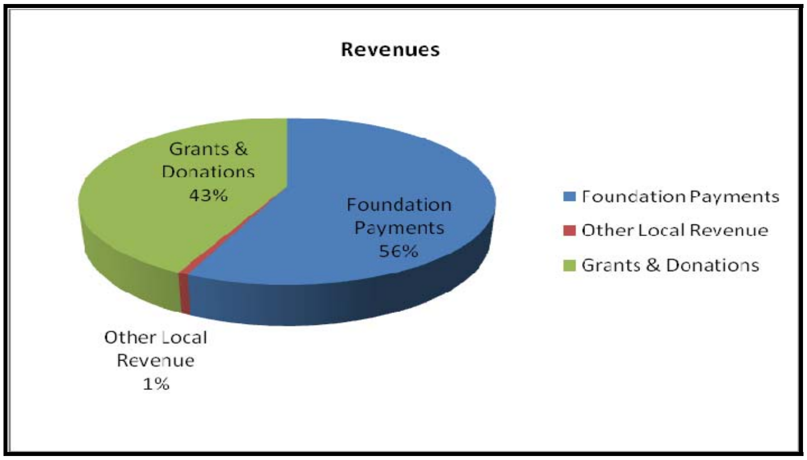

Table 2 shows the distribution of expenses in Fiscal Year 2007.

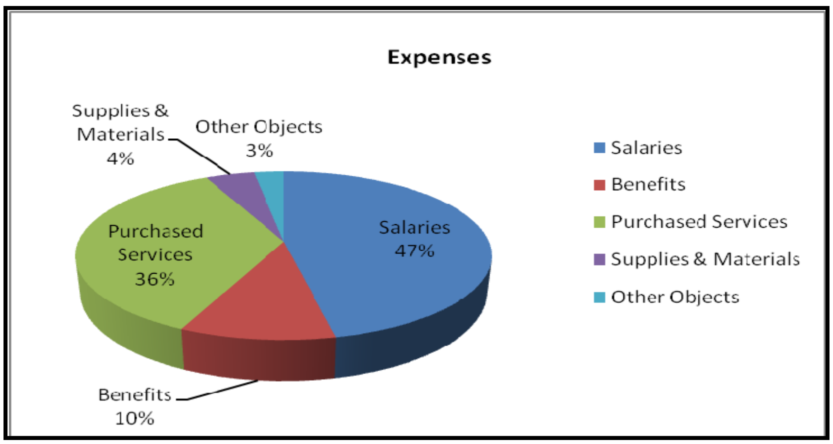

Table 3 shows the Capital Assets net of Accumulated Depreciation.

Capital Assets				
	Balance July 1, 2006	**Additions**	**Deletions**	**Ending June 30, 2007**
Furniture and Equipment	$ 112,226	21,507	-	$ 133,733
Leasehold Improvements	36,065	155,500	-	191,565
Total Capital Assets	**148,291**	**177,007**	**-**	**325,298**
Less: Accumulated Depreciation	(25,639)	(31,879)	-	($57,518)
Net Capital Assets	**$ 122,652**	**145,128**	**-**	**$ 267,780**

Table 4 provides a summary of the School's Net Assets / Accumulated Deficit for fiscal years 2006 and 2007.

	June 30, 2006	June 30, 2007
ASSETS		
Current Assets		
Cash and Cash Equivalents	$54,017	$0
IG Receivable	8,300	102,913
Total Current Assets	**62,317**	**102,913**
Non-Current Assets		
Capital Assets (Net of Accumulated Depreciation)	122,652	267,780
Total Assets	**184,969**	**370,693**
LIABILITIES & EQUITY		
Current Liabilities		
Cash and Cash Equivalents	0	85,920
Accounts Payable	39,955	97,715
Accrued Wages	63,750	98,013
Payroll Liabilities	15,506	(4,364)
Capital Lease- Current	3,680	3,973
Personal Loans	32,250	2,250
Interest Payable	2,708	9,208
IG Payable	62,925	25,689
Total Current Liabilities	**220,774**	**318,404**
Long Term Liabilities		
Concept Schools Loan	57,000	47,000
Breeze Inc. Loan	35,000	35,000
Horizon- Cleveland Loan	100,000	100,000
Capital Leases	12,892	8,920
Total Long-Term Liabilities	**204,892**	**190,920**
Total Liabilities	**425,666**	**509,324**
NET ASSETS/ACCUMULATED DEFICIT		
Investment in Capital Assets	122,652	267,780
Unrestricted	(363,349)	(406,411)
Total Net Assets/Accumulated Deficit	**$(240,697)**	**$(138,631)**

Table 5 provides a comparison of the School's Revenues, Expenses and Change in Net Assets/Accumulated Deficit for fiscal years 2006 and 2007.

	June 30, 2006	June 30, 2007
Operational Income/Expense		
Income		
Foundation Payments	$1,058,877	$1,032,750
Extracurricular Activities	1,439	1,489
Other Local Revenue	7,552	10,883
Total Operational Income	**1,067,868**	**1,045,122**
Expense		
Salaries	791,552	783,621
Benefits	151,041	174,359
Purchased Services	539,162	603,721
Supplies & Materials	192,179	74,943
Other Objects	40,511	45,736
Depreciation Expense	25,639	31,879
Total Operational Expense	**1,740,084**	**1,714,258**
Net Operational Loss	**(672,216)**	**(669,136)**
Non-Operational Income/Expense		
Federal Grants	313,391	546,734
State Grants	36,675	8,800
Contributions & Donations	85,610	222,168
Interest on Notes	(4,157)	(6,500)
Total Non-Operational Income	**431,519**	771,202
Net Assets/Accumulated Deficit		
Change in Net Assets/Accumulated Deficit	(240,697)	102,066
Net Assets/Accumulated Deficit at Beginning of Year	0	(240,697)
Net Assets/Accumulated Deficit at End of Year	**$(240,697)**	**$(138,631)**

Contacting the School's Financial Management:

This financial report is designed to provide citizens, grantors and potential 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 Begmurad Nepesov, Fiscal Officer, Horizon Science Academy- Cincinnati, Inc. 1055 Laidlaw Ave. Cincinnati, OH 45237.

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HORIZON SCIENCE ACADEMY – CINCINNATI
HAMILTON COUNTY
Statement of Net Assets/Accumulated Deficit
For the Fiscal Year Ended June 30, 2007

ASSETS	
Current Assets	
IG Receivable	$102,913
Total Current Assets	**102,913**
Non-Current Assets	
Capital Assets (Net of Accumulated Depreciation)	267,780
Total Assets	**370,693**
LIABILITIES & EQUITY	
Current Liabilities	
Cash and Cash Equivalents	85,920
Accounts Payable	97,715
Accrued Wages	98,013
Payroll Liabilities	(4,364)
Capital Lease- Current	3,973
Personal Loans	2,250
IG Payable	25,689
Interest Payable	9,208
Total Current Liabilities	**318,404**
Long Term Liabilities	
Concept Schools Loan	47,000
Breeze Inc. Loan	35,000
Horizon- Cleveland Loan	100,000
Capital Leases- Long Term	8,920
Total Long-Term Liabilities	**190,920**
Total Liabilities	**509,324**
NET ASSETS/ACCUMULATED DEFICIT	
Investment in Capital Assets	267,780
Unrestricted	(406,411)
Total Net Assets/Accumulated Deficit	**$(138,631)**

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

HORIZON SCIENCE ACADEMY – CINCINNATI
HAMILTON COUNTY
Statement of Revenues, Expenses
and Change in Accumulated Deficit
For the Fiscal Year Ended June 30, 2007

Operational Income/Expense	
Income	
Foundation Payments	$1,032,750
Extracurricular Activities	1,489
Other Local Revenue	10,883
Total Operational Income	**1,045,122**
Expense	
Salaries	783,621
Benefits	174,359
Purchased Services	603,721
Supplies & Materials	74,943
Other Objects	45,736
Depreciation Expense	31,879
Total Operational Expense	**1,714,258**
Net Operational Loss	**(669,136)**
Non-Operational Income/Expense	
Federal Grants	546,734
State Grants	8,800
Contributions & Donations	222,168
Interest on Notes	(6,500)
Total Non-Operational Income	771,202
Net Assets/Accumulated Deficit	
Change in Net Assets/Accumulated Deficit	102,066
Net Assets/Accumulated Deficit at Beginning of Year	(240,697)
Net Assets/Accumulated Deficit at End of Year	**$(138,631)**

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENT

HORIZON SCIENCE ACADEMY – CINCINNATI
HAMILTON COUNTY
Statement of Cash Flows
For Fiscal Year Ended June 30, 2007

Cash Flows from Operating Activities	
Cash Received from State of Ohio	$995,514
Cash Received from Other Operating Revenues	12,372
Cash Payments to Suppliers for Goods and Services	(412,903)
Cash Payments to Employees for Services	(749,358)
Cash Payments for Employee Benefits	(194,228)
Other Cash Payments	(45,736)
Net Cash Used for Operating Activities	**(394,339)**
Cash Flows from Noncapital Financing Activities	
Federal Grants Received	452,121
State Grants Received	8,800
Donations & Contributions	2,168
Payments for Notes	(40,000)
Net Cash Provided by Noncapital Financing Activities:	**423,089**
Cash Flows from Capital and Related Financing Activities	
Payments for Capital Acquisitions	(165,007)
Payments for Capital Leases	(3,680)
Net Cash Used for Capital and Related Activities	**(168,687)**
Net Increase in Cash and Cash Equivalents	**(139,937)**
Cash and Cash Equivalents at Beginning of Year	**54,017**
Cash and Cash Equivalents at End of Year	**$(85,920)**

Non-cash Items: During the fiscal year ended June 30, 2007, rental lease obligations of $220,000 and management fees of $99,036 were forgiven and not included in the cash transactions.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

HORIZON SCIENCE ACADEMY – CINCINNATI
HAMILTON COUNTY
Statement of Cash Flows
For Fiscal Year Ended June 30, 2007
(Continued)

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

Operating Loss	**(669,136)**
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities	
Depreciation	31,879
Changes in Assets and Liabilities	
Increase in Accounts Payable	45,760
Decrease in Payroll Liabilities	(19,869)
Increase in Accrued Wages	34,263
Decrease in IG Payable	(37,236)
Increase in Rent Payable Forgiveness	220,000
Total Adjustments	**274,797**
Net Cash Used for Operating Activities	**$(394,339)**

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Horizon Science Academy- Cincinnati, Inc., Hamilton County, Ohio (the School), is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to address the needs of students in grades K through twelve in Cincinnati. 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 November 18, 2004. Later on May 6, 2007 the original contract has been extended until May 30, 2010.

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. In FY2007 the School employed 35 full time and part time personnel for up to 175 students.

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 the School. In exchange for its services, Concept Schools receives ten percent of state funds received by the Academy, see Note 15. The School is associated with other Horizon Science Academies throughout the State.

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/Accumulated Deficit; a Statement of Revenues, Expenses, and Changes in Accumulated Deficit; and a Statement of Cash Flows.

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

The accounting and financial reporting treatment is determined by its 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 meets the cash flow needs of its enterprise activities.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The full accrual basis of accounting is used for reporting purposes. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Revenues resulting from non-exchange transactions, in which the School receives value without directly giving equal value in return, such as grants, entitlements and donations are recognized in the period in which all eligibility requirements have been satisfied. Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. Expenses are recognized at the time they are incurred.

C. Budgetary Process

Unlike other public schools located in the State of Ohio, community Schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705; rather community schools are required to create a Five Year Budget Forecast that is approved by the School Board and submitted to ODE and to the School’s Sponsor. The contract between the School and its Sponsor does not prescribe any other budgetary process for the School. For the fiscal year 2007, the School did not prepare or file the required five year budget forecast.

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 maintained a capitalization threshold of five thousand dollars for inventory assets and fixtures & improvements. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

	Useful Life
Improvements	3 to 10 years
Heavy Duty Office or Classroom Furniture	10 years
Computers and Other Electronic Equipment	3 years
Vehicles	3 to 10 years

F. Intergovernmental Revenues

The School currently participates in the State Foundation Program, Special Education Program, and Parity Aid Program which are reflected under "Foundation Payments". 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 fulltime 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 from State and Federal Governments and donations 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. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the Statement of Net Assets.

H. Operating Revenues and Expenses

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

I. Compensated Absences

School policy indicates that all full time employees are entitled to eight days of sick/personal days in a school year. All leave earned by employees must be used within the current school year and cannot be transferred to the next school year. At the end of the year employees are awarded $50 per each unused sick/personal day.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors, or contracts. The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. At the end of the fiscal year ended June 30, 2007 the School did not have any restricted net assets.

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 AND INVESTMENTS

On June 30, 2007, the total carrying book balance of the School's two bank accounts at Fifth Third Bank was ($85,920) and the total Bank balance was $58,949. The bank balance was insured by FDIC up to $100,000. The School 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:

Capital Assets	Balance July 1, 2006	Additions	Deletions	Ending June 30, 2007
Furniture and Equipment	$ 112,226	21,507	-	$ 133,733
Leasehold Improvements	36,065	155,500	-	191,565
Total Capital Assets	**148,291**	**177,007**	**-**	**325,298**
Less: Accumulated Depreciation	(25,639)	(31,879)	-	(57,518)
Net Capital Assets	**$ 122,652**	**145,128**	**-**	**$ 267,780**

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 calling (800) 878 5853, by visiting SERS website at www.ohsers.org or 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 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board.

The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007 and 2006 was $9,132, and $17,070 respectively; 100 percent of the contributions have been paid for fiscal year 2007 and previous years.

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.strs.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.

5. DEFINED BENEFIT PENSION PLANS (Continued)

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 to STRS Ohio for the fiscal years ended June 30, 2007 and 2006 was $96,138 and $85,618 respectively; 100 percent of the contributions have been paid for fiscal year 2007 and previous years.

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 Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School, this amount equaled $ 6,867 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 year ended June 30, 2006, net health care costs paid by STRS were $282,743,000 and STRS had 119,184 eligible benefit recipients.

6. POSTEMPLOYMENT BENEFITS (Continued)

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 $2,166.

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, 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

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 the fiscal year 2007, the School contracted with Indiana Insurance Company for property and general liability insurance with a $1,000,000 single occurrence limit and $2,000,000 annual aggregate with no deductible. There have been no settlements exceeding coverage in the last two years.

The Academy also 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 did not owe for this premium as of June 30, 2007.

8. EMPLOYEE MEDICAL AND DENTAL BENEFITS

According to the School Policy, the School is required to provide Medical and Dental Insurance to all its full time employees. 60% of the monthly premiums for Medical and Dental coverage are to be paid by the School, while the remaining 40% are to be deducted from employee's wages.

9. PURCHASED SERVICES

Purchased service expenses during fiscal year 2007 were as follows:

Purchased Services	
Type	**Amount**
Professional Services	$61,773
Rent and Property Services	429,216
Advertising and Communications	48,998
Pupil Transportation	525
Food Services	61,481
Staff Travel Expenses	1,728
Total	$ 603,721

10. LONG TERM LIABILITIES

The School entered into interest free promissory notes with Concept Schools, the Management Company, Breeze Inc. and several other individuals in order to provide cash flows for operating expenses. The School also entered into a loan agreement with Horizon Science Academy-Cleveland, a sister school on January 13, 2006 for $100,000 with an annual interest of 6.5%. According to the note, the School was supposed to make monthly payments of $5,845, but due to the deficit in the cash flows no payments were made until November 2007. At the end of the fiscal year ending June 30, 2007 an accrued interest of $6,500, related to this debt, was recorded under interest payable. The balances for the above loans and notes payables as of June 30, 2007 are as follows:

	Beginning Balance	**Proceeds**	**Payments**	**Ending Balance**
Loan from Concept Schools	$ 57,000	$ 0	$ 10,000	$ 47,000
Loan from Breeze Inc	$ 35,000	$ 0	$ 0	$ 35,000
Note Payable to HSA- Cleveland	$ 100,000	$ 0	$ 0	$ 100,000
Loan from Onder Secen	$ 31,250	$ 0	$ 30,000	$ 1,250
Loan from Talha Ozdemir	$ 1,000	$ 0	$ 0	$ 1,000
Total	**$ 225,250**	**$ 0**	**$ 40,000**	**$ 184,250**

11. CAPITAL LEASES

In July 2005, the School entered into a capitalized lease agreement for a Copier/printer with Dollar Leasing Company. The lease meets 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.

11. CAPITAL LEASES (Continued)

The copier acquired by the lease has been capitalized in the statement of net assets/accumulated deficit in the amount of $19,980, 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/accumulated deficit.

During the fiscal year principal payments and interest payments totaled $3,680 and $1,177 respectively. The following is a schedule of the future minimum lease payments required for the capital leases as of June 30, 2007:

Fiscal Year End	**Payments**	**Interest**	**Principal**
2008	$4,856	$884	$3,972
2009	4,856	567	4,289
2010	4,856	226	4,630
Total	**$14,568**	**$1,677**	**$12,891**

12. OPERATING LEASES

On July 1, 2005, the school entered into a lease agreement with Breeze Inc., a sister company to Concept Schools (the Management Company) for the facilities located at 1055 Laidlaw Ave. Cincinnati, OH 45237 for five years. In fiscal year 2007, the monthly rent was $26,000 with an annual increase of 4%. The school paid only $42,000 of the incurred rent in fiscal year 2007 and Breeze Inc. forgave $220,000 from the remaining balance. A current balance of $50,000 is recorded under accounts payable.

13. CONTINGENCIES

A. Grants

The school received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the School. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 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 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 $25,689 which is recorded as a liability under Intergovernmental Payables.

13. CONTINGENCIES (Continued)

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 Horizon Science Academy-Cincinnati cannot presently be determined.

14. SPONSORSHIP AGREEMENT

On July 1, 2004, the School signed a sponsorship agreement with Lucas County Educational Services. 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 6, 2007 the original contract has been extended until May 30, 2010. 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 $9,903.

15. MANAGEMENT COMPANY AGREEMENT

School contracted with Concepts Schools, Inc. on March 15, 2006 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 State. The total expenses recorded to Concept Schools in fiscal year 2007 amounted to $24,697. The rest of the incurred fees were forgiven by Concept Schools.

16. RELATED PARTY DISCLOSURE

Vedat Akgun / Breeze Inc. / Concept Schools

Mr. Vedat Akgun who was an employee (CEO at some point) of Concept Schools, the Management Company for Horizon Science Academy- Cincinnati filed the articles of corporation for the School with the Ohio Secretary of State. The Management Company contract was signed on January 1, 2005. He also signed the copier lease agreement as the "Founder" of the School. Mr. Akgun also acted as the founder Director of Horizon Science Academy- Dayton from 11/21/2004 to 1/28/2005.

Mr. Vedat Akgun was also the President of Breeze Inc. which is the property manager and landlord of the School's building. The School signed a lease with Breeze Inc. on January 1, 2005. During the audit period, the School paid in rent the amount of $42,000. Of the remaining rent $220,000 was forgiven and $50,000 was recorded under accounts payable. On December 23, 2005 Breeze Inc also loaned $35,000 to the School. The balance owed at June 30, 2007 was $35,000.

Currently, Mr. Akgun only serves at the Board of Concept Schools which is a non-profit organization as the Board President. All shares of Breeze Inc. have been transferred to New Plan Learning Inc. which is also a non-profit organization. All the Board members of New Plan Learning are appointed among the Board Members of Horizon Science Academies.

16. RELATED PARTY DISCLOSURE (Continued)

Concept Schools, the School's Management Company also issued several loans to the School during the fiscal year 2006 in the total of $57,000. The balance owed at June 30, 2007 was $47,000. Considering the financial standing of the School, Concept Schools forgave all the management fees in the fiscal year 2007.

Onder Secen / Breeze Inc.
Mr. Onder Secen, the original Director of the School (inception through July 2007) was an agent for Breeze Inc. In Domestic/Amendment Restated Articles paperwork for Breeze Inc submitted to Secretary of State, he signed some of the paperwork and was listed as the "Secretary" in one and "statuary agent" in another.

Mr. Secen issued four personal loans to the School during the fiscal year 2006 in varying amounts for a total of $47,250. The outstanding balance as of June 30, 2007 was $1,250.

Emily Secen, wife of the School Director, Onder Secen was also paid a bonus of $1,600 on August 31, 2006, according to her contract for 2005-2006 school year. Employee contracts for the 2005-2006 school year indicate that all teachers are eligible for bonuses up to 10% of the annual salaries according to their performances within the school year. For the 2005-2006 School year 9 employees were given bonuses a total of $11,450.

17. PLANS FOR IMPROVEMENT OF FINANCIAL STANDING OF THE SCHOOL

The School's management plans to increase the enrollment of the School up to 500 students in the following years. In 2008-2009 school year, the School already increased its enrollment up to 330. In 2007-2008 school year, the school was rated as "Effective" by ODE. We believe that the School's academic achievement will help the School in increasing its enrollment.

18. JOINTLY GOVERNED ORGANIZATION

The School 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 School.

19. NONCOMPLIANCE

The School did not comply with some requirements regarding the design and implementation of controls for financial reporting and other various revised code requirements.

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

Horizon Science Academy-Cincinnati
Hamilton County
1055 Laidlaw Ave
Cincinnati, Ohio 45237

To the Board of Trustees:

We have audited the financial statements of the business-type activities of Horizon Science Academy-Cincinnati, Hamilton County, Ohio (the School), as of and for the year ended June 30, 2007, which collectively comprise the School's basic financial statements and have issued our report thereon dated September 30, 2008, wherein we noted the School has incurred an operating loss of $669,136, negative net working capital of $215,491 and an accumulated deficit of $138,631. However the School's non-operating income exceeded non-operating expenses resulting in a positive change in net assets of $102,066 for the year ended June 30, 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 School'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 School's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School'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 School'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 School'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: 2007-002, and 2007-007 through 2007-009.

Corporate Centre of Blue Ash / 11117 Kenwood Rd. / Blue Ash, OH 45242
Telephone: (513) 361-8550 (800) 368-7419 Fax: (513) 361-8577
www.auditor.state.oh.us

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2007-002, and 2007-007 through 2007-009.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the School'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 2007-002 and 2007-007 through 2007-009 are also material weaknesses.

We also noted certain internal control matters that we reported to the School's management in a separate letter dated May 13, 2009.

Material Noncompliance

As part of reasonably assuring whether the School'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 instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2007-001 through 2007-006.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the School's management in a separate letter dated May 13, 2009.

The School's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the School'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 13, 2009

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 - Finding for Recovery Repaid Under Audit

Auditor of State Bulletin 2003-005 Expenditure of Public Funds/Proper "Public Purpose" states that the Auditor of State's Office will only question expenditures where the legislative determination of a public purpose is manifestly arbitrary and incorrect. The Bulletin further states that the Auditor of State's Office does not view the expenditure of public funds for alcoholic beverages as a proper public purpose and will issue findings for recovery for such expenditures as manifestly arbitrary and incorrect.

Former School Director Onder Secen used the School's debit card to charge $4.00 for one alcoholic beverage on November 1, 2006 during a staff dinner.

In accordance with the forgoing facts and pursuant to Ohio Revised Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against Onder Secen, Former Director, in the amount of $4.00, in favor of Horizon Science Academy-Cincinnati's General Fund. The School received $4 cash from Mr. Onder Secen on May 12, 2009 as repayment.

Officials' Response:

Mr. Secen stated that he does not use alcohol himself and was unaware that a staff member ordered an alcoholic beverage at the staff dinner.

Auditor of State's Conclusion:

All expenditures need to meet the requirements of Proper Public Purchase (Auditor of State Bulletin 2003-005). The Auditor of State does not consider the purchase of alcoholic beverages by the School to be allowable.

FINDING NUMBER 2007-002

Noncompliance and Material Weakness

Ohio Revised Code, Section 3314.03 (B)(5), and AOS Bulletin 2000-005, require that the management of each community school be 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 School's Financial Report for the fiscal year ended June 30, 2007 contained errors which resulted in numerous adjustments to correctly report the financial activity during and at the end of the period as follows:

Statement of Net Assets/Accumulated Deficit:

- Capital Assets were understated $55,116;
- Accumulated Depreciation was understated by $18,449;
- Invested In Capital Assets, Net of Related Debt was understated $36,667;

FINDING NUMBER 2007-002
(Continued)

- Accumulated Deficit was overstated $36,667.

Statement of Revenues, Expenses and Changes in Accumulated Deficit:

- Depreciation Expenses were understated $9,118.

Statement of Cash Flows:

- Cash Payments to Suppliers for Goods and Services was understated $62,000;
- Federal Grants Received was understated $39,531;
- Payments for Capital Acquisitions was overstated $26,150;
- Payments for Capital Leases was understated $3,680.

In addition, many 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:

The School's management will be more careful in preparing its financial statements to avoid such errors in the future. We would also like to mention that having three and a half year's audit at the same time makes the process painful and increase the risk for such errors.

Auditor of State's Conclusion:

The financial statements and related internal controls are the responsibility of the School's Management. This process can be shortened in future years if the School provides detailed and accurate financial information and supporting documentation in a timely manner.

FINDING NUMBER 2007-003

Noncompliance Citation

Ohio Revised Code, Section 149.351 (A), states that all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commission provided for under Sections 149.38 to 149.42 of the Revised Code. Such records shall be delivered by outgoing officials and employees to their successors and shall not be otherwise removed, transferred or destroyed unlawfully.

The following records for the audit period could not be located for audit:

FINDING NUMBER 2007-003
(Continued)

- 29% (9/31) of employee contracts/salary agreements were not maintained in employee personnel file;

- 18% (22/120) of non-salary employees timesheets were not maintained to support the employees' pay for the pay period;

- 23% (7/31) of employee personnel files did not include all required forms. The following items were missing: Ohio IT-4 forms, BCI forms and teacher licenses.

- Minutes could not be located for the meeting on June 16, 2007;

- No EMIS user access forms, with all with access to the CSADM system, were presented for review during the audit; and

- No documentation of employee leave balances and not all leave forms for leave taken were presented for audit.

The School should develop policies and procedures outlining the security of all records or take a written inventory of all records noting the records description and location. All records should be maintained in a secure central location, such as locked file cabinets or in a locked office, with access limited to specific officials and/or personnel. Disposal of records should only be made in accordance with an approved records retention schedule

Officials' Response:

The School Board will take necessary actions in order to avoid such issues in the future.

FINDING NUMBER 2007-004

Noncompliance Citation

Ohio Revised Code, Section 3314.03(A)(10), requires all community school classroom teachers to be licensed in accordance with Ohio Rev. Code Sections 3319.22 to 3319.31, except that a community school may engage non-certificated persons to teach up to twelve hours per week pursuant to Ohio Rev. Code Section 3319.301. Ohio Rev. Code Section 3319.301(A) provides that a permit must be issued by the Ohio Department of Education to these "noncertified" persons in order to permit them to teach.

For the period of time under audit, 23% (5 of 22) of the School's teachers were not properly licensed through the Ohio Department of Education. The School should adopt policies and procedures to verify during the hiring process that all teachers are properly certified. This will assist the School in complying with state teaching guidelines by hiring licensed teachers.

Officials' Response:

All of the core subject teachers were licensed. There were only two long term substitute teachers who taught during the school year without license. Both of them had bachelor degrees and were eligible to get substitute license. The other three were short term substitute teachers who taught a few days during the school year. They had also bachelor degrees. A community school may engage non-certificated persons to teach up to twelve hours per week pursuant to Ohio Rev. Code Section 3319.301.

FINDING NUMBER 2007-004
(Continued)

Auditor of State's Conclusion:

The records provided by the School for audit, indicated that five teachers out of twenty-two tested (100%) were not properly licensed. Of these five teachers, who all taught in excess of twelve hours per week, three had no evidence of a license for that fiscal year, one only had a short term substitute license, and the last had an expired license. Names of unlicensed teachers and related dates were provided to the School on April 30, 2009.

FINDING NUMBER 2007-005

Noncompliance Citation

Ohio Revised Code, Section 3314.08, requires the board of education of each school district to annually report the number of students entitled to attend school in the district that are actually enrolled in community schools. This section also requires the governing authority of each community school to annually report the number of students enrolled in the community school. For each student, the governing board of the community school must report the city, exempted village, or local school district in which the student is entitled to attend.

Based on these reported numbers, the state Department of Education shall calculate and subtract the appropriate amount of state aid from each school district. The amount subtracted shall be paid to the corresponding community school or to the internet or computer-based community school entitled to receive those funds. When calculating and subtracting the appropriate amount of state aid, the department should take into consideration any enrollment of students in community schools for less than the equivalent of a full school year.

Ohio Revised Code, Section 3314.03, requires that the contract entered into between a sponsor and the governing authority of a community school state the following:

- that the governing authority will adopt an attendance policy that includes a procedure for automatically withdrawing a student from the school if the student, without a legitimate excuse, fails to participate in one hundred five consecutive hours of the learning opportunities offered to the student;

- that the school will provide learning opportunities to a minimum of twenty-five students for a minimum of nine hundred twenty hours per school year; the school is required to meet the minimum 25 student count prior to September 30th and may fall below that count throughout the year.

- that the governing authority will adopt a policy regarding the admission of students who reside outside the district in which the school is located; and

- a financial plan detailing an estimated school budget for each year of the period of the contract and specifying the total estimated per pupil expenditure amount of each such year.

Contrary to the above requirements, the School did not have a policy included in the contract between the sponsor and governing board to monitor their reported attendance, automatically withdraw students who were absent 105 consecutive hours, and did reconcile attendance data with the data reported to the State Department of Education. ODE periodically runs filters on CSADM and generates a Fatal Error Report to identify certain funding errors. The State Department of Education issued a Fatal Error Exception Report due to the attendance reported did not reconcile with the State Department of Education's data. Funds were withheld from future foundation payments which resulted in an intergovernmental liability of $25,689.

FINDING NUMBER 2007-005
(Continued)

The School provided no explanation when requested to show evidence of a reconciliation of attendance reports to the State Department of Education's data.

Not reconciling attendance reports to the State Department of Education's data could lead to a loss of state funding to the School.

We recommend the School:

- include Ohio Revised Code Section 3314.03 requirements above in their contracts with their sponsor;

- monitor the reported attendance and reconcile with data submitted to the State Department of Education's to receive funding; and

- develop policies to include sufficient procedures for identifying and tracking all students for whom the School is responsible. These students include those: (a) residing and attending public schools (b) over the age of 18 that are not residing with a guardian (c) placed by the courts in facilities outside the district, (d) attending other community schools, and (e) that have been absent due to truancy for 105 consecutive hours or greater.

Officials' Response:

Currently, the School carefully monitors the enrollments and withdrawals of students with its School Information System.

FINDING NUMBER 2007-006

Noncompliance Citation

Ohio Revised Code, Section 5705.391(A), and Ohio Administrative Code, Section 3301-02-04, require schools to prepare five-year projections of revenues and expenditures. The five year projections must be submitted to the Department of Education upon the adoption of an annual appropriation measure but no later than October 31 of each fiscal year and an updated five year projection must be submitted between April 1 and May 31 of each fiscal year.

During the year ended June 30, 2007, the School did not prepare or file the required five-year projections with ODE.

We recommend that the School put steps in place for the preparation of the required five-year projections on a yearly basis and that they be approved by the Board and submitted to ODE no later than October 31 of each fiscal year.

Officials' Response:

The School submitted its five year budget forecast for fiscal years 2008 & 2009.

Auditor of State's Conclusion:

This citation is for 2007 noncompliance. In 2007, no five-year forecast was submitted to the Ohio Department of Education as required.

FINDING NUMBER 2007-007

Material Weakness

For the period ended June 30, 2007, the School paid bonuses totaling $4,175. These bonuses were not outlined in the Teachers Employment Contract, the Board of Trustees minutes, nor were they outlined in the Employee Handbook.

- 14 teachers received a $50 bonus for department heads and grade chairs;
- Four teachers received $1,825 for new enrollments; and
- One teacher received $1,600 with no supporting documentation.

Of the bonuses none were approved by the Board of Trustees, contrary to the policy communicated by the Business Manager. The policy, according to an e-mail submitted by the Business Manager, was that the bonuses were to be recommended by the Director and approved by the Board.

Of the 20 bonus checks issued, none of the checks had adequate supporting documentation. One of the 27 checks (4%) was not approved by the Director and had no supporting documentation. Of the other 19 checks, 15 of the 27 (56%) checks had memos naming each person as documentation indicating the employee was to be paid a bonus of the dollar amount listed in the table above. The remaining four checks (15%) had no documentation beyond a memo indicating the total amount to be paid as a bonus for enrolling students.

A lack of internal controls increases the risk that theft, fraud, or errors could occur and not be detected in a timely manner. Furthermore, failure to accurately review disbursements:

- reduces the accountability over School funds;
- reduces the Board’s ability to monitor financial activity and make informed financial decisions;
- increases the likelihood that moneys will be misappropriated and not detected, and;
- increases the likelihood that the School’s financial statements will be misstated.

A good internal control system includes procedures to help ensure management receives and processes accurate information as well as mitigate fraud, theft, or errors going unresolved.

When designing the School's system of internal control and the specific control activities, management should consider the following:

- Ensure proper authorization of all transactions in accordance with management's policies.
- Ensure proper design and maintenance of all School records.
- Verify the existence and valuation of disbursements and periodically reconcile them to the accounting records.

We recommend the School clearly state their policies for bonuses and then take due care to follow those policies.

FINDING NUMBER 2007-007
(Continued)

Officials' Response:

We believe the necessity of bonuses in order to motivate our teachers and appreciate their hard work. In order to make the process more transparent and accountable, in the future the School administration will document the assessments and board approvals of all bonus payment to its employees.

Auditor of State's Conclusion:

This finding was issued due to lack of documentation of: which teachers were eligible; why they were eligible; the criteria for eligibility; and the amounts to be awarded.

FINDING NUMBER 2007-008

Material Weakness

During our test of vouchers for the checking account, we noted the following issues:

- Supporting documentation could not be located for 2 of 40 (5%) expenditures tested; vendors were called to obtain support; and

During our test of vouchers for the debit card, we noted the following issues:

- The School paid $29.68 in sales tax;
- The School paid $1,328.12 of $25,600.25 (debit card - side debit card account) (5%) without supporting documentation;
- The School paid $137.78 of $5,343.50 (debit card – main checking account) (2%) without supporting documentation;
- $1,963.86 of $30,943.75 (debit card – both accounts combined) (6%) was paid without itemized receipts, only charge slips;
- A $4 beer was purchased with School monies;
- 10 of 269 (4%) expenditures tested did not have a purchase order (as required by the Schools' policy manual);and
- 261 of 269 (97%) expenditures tested did not have a requisition form (as required by the Schools' policy manual).

During our test of payroll disbursements, we noted the following issues:

- 9 teachers were paid $6,178.68 with no timesheets or other supporting documentation to support afterschool tutoring or Saturday School; and
- Two employees were overpaid $5,977.35 when comparing total paid to contract amounts.

FINDING NUMBER 2007-008
(Continued)

During our test of leave balances and payouts, we noted the following:

- 9 employees did not receive a payout, yet should have based upon their leave balances;
- Leave request totals do not agree to the School prepared Days Used Report;
- School Leave Year-End Reports do not agree to the bonus calculation report; and
- Leave request for each employee did not agree to the bonus check.

A lack of internal controls increases the risk that theft, fraud, or errors could occur and not be detected in a timely manner. Furthermore, failure to accurately review disbursements:

- reduces the accountability over School funds;
- reduces the Board’s ability to monitor financial activity and make informed financial decisions;
- increases the likelihood that moneys will be misappropriated and not detected, and;
- increases the likelihood that the School’s financial statements will be misstated.

A good internal control system includes procedures to help ensure management receives and processes accurate information as well as mitigate fraud, theft, or errors going unresolved.

When designing the School's system of internal control and the specific control activities, management should consider the following:

- Ensure proper authorization of all transactions in accordance with management's policies.
- Ensure proper design and maintenance of all School records.
- Verify the existence and valuation of disbursements and periodically reconcile them to the accounting records.

The School should verify that all expenditures serve a proper public purpose by paying credit card balances timely and utilizing their tax exempt status. Proper documentation was not always attached to the vouchers to support the validity or proper posting of the expenditure and no documentation was presented that disbursements were authorized before payment. During our testing of debit card disbursements through the main checking account and the side debit card account, 7% of the expenditures tested did not have sufficient detail on the supporting documentation to evaluate whether it was for a proper public purpose and 6% had no supporting documentation. Employees who are paid above and beyond their contracted amounts should prepare a timesheet or other documentation to provide proof of their additional hours and/or work necessitating additional payroll. Several employees were paid less than what they were entitled to according to the leave form support and balances. Almost all forms presented for audit, contradicted one another as to the amount of employee leave as fiscal year end. Forms were not located for all leave taken by employees. The lack of a system of approvals and documentation significantly increases the probability of expenditures being made that are not for a proper public purpose.

FINDING NUMBER 2007-008
(Continued)

To improve the School's internal controls and cash management over the expenditure process, the School should implement procedures to provide that sales tax is not paid on transactions. We recommend the School attach detailed invoices or supporting documentation including, but not limited to, original itemized invoices of goods and services received, to the vouchers to support the validity of the expenditure. Requisitions and purchase orders should be prepared and approved as required by School Policy prior to payment of any expenditure. All payroll expenditures outside of contracts amounts and all pay for hourly employees should have a time sheet or other documentation to support the amount paid. This timesheets/supporting documentation should also be approved by the employee's supervisor. No check should be signed, unless it is supported by a requisition, purchase order, detailed receipt or invoice, or timesheet to ensure that the expenditures are allowable and properly approved.

Officials' Response:

The School adopted financial policies and procedures in order to increase its financial accountability. In the future, the School Administration will be more careful in the application of these policies.

FINDING NUMBER 2007-009

Material Weakness

For the fiscal year ended June 30, 2007, the School incurred an operating loss in the amount of ($669,136), negative net working capital of ($215,491) and an accumulated deficit of ($138,631). However the School's non-operating income exceeded non-operating expenses resulting in a positive change in net assets of $102,066 for the year ended June 30, 2007. An accumulated deficit is caused by improper monitoring of revenues and expenditures and indicates that the School expended money that was not available.

A lack of internal controls was noted in the overall operations of the School and record keeping was missing. Lack of controls and poor recordkeeping increases the risk that theft, fraud or errors could occur and not be detected in a timely manner.

The School did not have adequate control procedures over the school operations. The following conditions were noted:

- No regular review of Treasurer's report at 2 of 10 Board meetings (20%);
- 54 of 98 (55%) non-salary employees' timesheets were not approved by Director;
- 2 of 22 (9%) of salaried employees' contracts were not signed by employee or the School;
- No duplicate receipts were issued for receipts received during the audit period;
- No one at the school is inspecting and reconciling the following reports for financial and staff data: Standard Validation (EMSVLD), Aggregation Validation, (EMSAGG5), Aggregation Exclusion (EMSAGG6) and EMSRDET Validation (EMSRDET);
- The written amounts in the lease agreement with Breeze for rental of the building do not match the dollar amounts in the agreement, monthly or annually;

FINDING NUMBER 2007-009
(Continued)

- A $1,532.95 (1 of 40 tested) expenditure to Waterworks was paid from Title 1 funds per the School's Profit and Loss Report by Class. If this amount had exceeded $10,000, it would have been a potential federal questioned cost;
- 30 of 40 (75%) expenditures tested did not have a requisition form (as required by the Schools' policy manual). Of the 10 with requisition forms, 9 were approved by the Director as required by the Schools' policy manual;
- 40 of 40 (100%) expenditures tested did not have a purchase order approved by Director (as required by the Schools' policy manual);
- 2 of 2 (100%) of expenditures totaling $60,500 did not obtain bids before expenditure; and
- 0 of 5 (0%) checks exceeding $5,000 had two signatures (as required by the Board of Trustees).

A lack of internal controls increases the risk that theft, fraud, or errors could occur and not be detected in a timely manner. Furthermore, failure to accurately reconcile accounting records:

- reduces the accountability over School funds;
- reduces the Board's ability to monitor financial activity and make informed financial decisions;
- increases the likelihood that moneys will be misappropriated and not detected; and
- increases the likelihood that the School's financial statements will be misstated.

A good internal control system includes procedures to help ensure management receives and processes accurate information as well as mitigate fraud, theft, or errors going unresolved.

When designing the School's system of internal control and the specific control activities, management should consider the following:

- Ensure proper authorization of all transactions in accordance with management's policies.
- Ensure proper design and maintenance of all School records.
- Verify the existence and valuation of receipts and disbursements and periodically reconcile them to the accounting records.

The School should develop and implement a monitoring control system over the Schools' operations to ensure that material misstatements do not occur and that liabilities will not be incurred that the school cannot meet.

We recommend that the Board Members request to review bank reconciliations at each monthly meeting and should continuously monitor its financial condition and adjust its financial plan accordingly. Additionally, Board Members should monitor receipt and disbursement transactions to insure that the school has adequate internal control procedures in place and operating.

FINDING NUMBER 2007-009
(Continued)

Officials' Response:

We believe the statement of operating loss in this finding is misleading; because in the calculation of "operating loss", expenditures from Federal and State grants and donations are considered as operating expenditures whereas income from those sources are considered as non-operating revenues. In this sense, all the Schools show operating loses according to the size of Federal and State grants they receive. The calculation method makes it kind of impossible for schools to record any operational gain. Therefore, we recommend the readers to disregard the amount of operating loss in this finding. We also believe that this finding should be totally removed, because the School actually recorded a profit of $102,066 for the fiscal year. We do not understand how such a significant increase in the net assets can be tied to lack of internal controls.

Auditor of State's Conclusion:

We believe that the School's operating loss is a significant issue taken in the context of the School's negative working capital and accumulated deficit.

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HORIZON SCIENCE ACADEMY - CINCINNATI
HAMILTON 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 – Overpayment to an former Director for unsupported reimbursements totaling $2,995.45.	Yes – Repaid	
2006-002	**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	Repeat as Finding 2007-002.
2006-003	Failure of the Governing Board to approve debt commitments.	Yes	
2006-004	**ORC 149.351(A)** – Destruction of Records	No	Repeat as Finding 2007-003.
2006-005	**ORC 3314.03(A)(10)** – failure to have teachers properly licensed.	No	Repeat as Finding 2007-004.
2006-006	**ORC 5705.391(B) –** Failure to prepare and file five-year projections.	No	Repeat as Finding 2007-006.
2006-007	Material Weakness - Lack of controls over disbursements	No	Repeat as Finding 2007-008.
2006-008	Material Weakness - Payment of Bonuses without supporting documentation	No	Repeat as Finding 2007-007.
2006-009	Material Weakness - Having a material operating loss and accumulated deficit.	No	Repeat as Finding 2007-009.

Note: The 2007 audit was preformed concurrently with the 2006 audit.

Mary Taylor, CPA
Auditor of State

HORIZON SCIENCE ACADEMY - CINCINNATI

HAMILTON 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 16, 2009

88 E. Broad St. / Fourth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us