



Dave Yost • Auditor of State

**HORIZON SCIENCE ACADEMY DAYTON HIGH SCHOOL
MONTGOMERY COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Statement of Net Assets – June 30, 2011	7
Statement of Revenues, Expenses and Changes in Net Assets – For the Fiscal Year Ended June 30, 2011	8
Statement of Cash Flows – For the Fiscal Year Ended June 30, 2011	9
Notes to the Basic Financial Statements	11
Federal Awards Receipts and Expenditures Schedule For the Fiscal Year Ended June 30, 2011	21
Notes to the Federal Awards Receipts and Expenditures Schedule	22
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	23
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133	25
Schedule of Findings and Questioned Costs.....	27
Schedule of Prior Audit Findings.....	35
Corrective Action Plan.....	36
Independent Accountants' Report on Applying Agreed-Upon Procedure.....	37

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Horizon Science Academy Dayton High School
Montgomery County
250 Shoup Mill Road
Dayton, Ohio 45415

To the Board of Directors:

We have audited the accompanying basic financial statements of Horizon Science Academy Dayton High School, Montgomery County, Ohio (the School), as of and for the year ended June 30, 2011, 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 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 Horizon Science Academy Dayton High School, as of June 30, 2011, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2012, 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.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the School's basic financial statements taken as a whole. The Federal Awards Receipts and Expenditures Schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The Federal Awards Receipts and Expenditures Schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This Schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

April 23, 2012

**HORIZON SCIENCE ACADEMY DAYTON HIGH SCHOOL
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

The discussion and analysis of Horizon Science Academy Dayton High School's (the School) financial performance provides an overall review of the financial activities for the fiscal year ended June 30 2011. 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 2011 are as follows:

- Total net assets decreased by \$2,378 from \$111,149 to \$108,771
- The School had total operating revenues of \$1,712,416
- The School had total operating expenses of \$2,765,537
- The current liabilities increased by \$77,426
- The School received Federal and State Grants total of \$826,478

The School started 2010-2011 academic year with an enrollment around 280 students. Throughout the year, its enrollment dropped gradually to 250, which was the same as the School's first year in operation. In its second year it was awarded the Public Charter School Program Start-up grant; for which the initial phase allocation was \$225,000. Later the School was allocated an additional amount of \$30,000. With the help of the grant, the School completed its equipment furnishing. \$104,500 of the Start-up funds was used to purchase capital assets such as school furniture and technological equipment.

Using this Financial Report:

This annual report consists of three parts; Management's Discussion and Analysis, the Financial Statements and the Notes to the Financial Statements. The Financial Statements part includes a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets and a Statement of Cash Flows.

The Statement of Net Assets:

The Statement of Net Assets shows how well the School performed financially during the fiscal year. This statement includes all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. This basis of accounting takes into account all revenues earned and expenses incurred during the fiscal year regardless of when cash is received or paid.

**HORIZON SCIENCE ACADEMY DAYTON HIGH SCHOOL
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)
(Continued)**

The following table provides a comparison of the School's Net Assets in fiscal years 2010 and 2011.

	<u>June 30, 2010</u>	<u>June 30, 2011</u>
Assets		
Cash	52,290	84,749
Other Current Assets	162,232	133,794
Capital Assets	151,320	210,708
Total Assets	<u>\$365,842</u>	<u>\$429,251</u>
Liabilities		
Current Liabilities	227,593	305,019
Long Term Liabilities	27,100	15,461
Total Liabilities	<u>\$254,693</u>	<u>\$320,480</u>
NET ASSETS		
Investment in Capital Assets	113,642	183,608
Restricted	13,991	0
Unrestricted	(16,484)	(74,837)
Total Net Assets	<u>\$ 111,149</u>	<u>\$ 108,771</u>

Other current assets include Intergovernmental Receivables from the State due to Federal Grants, and a \$30,000 deposit to the land lord for the lease agreement. 45% of the current liabilities are accrued wages and payroll liabilities and the rest is accounts payables and capital leases.

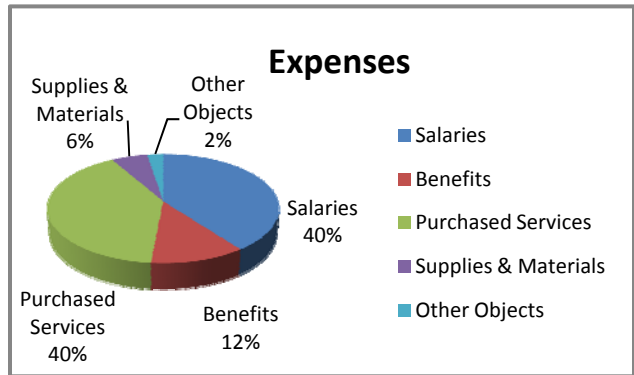
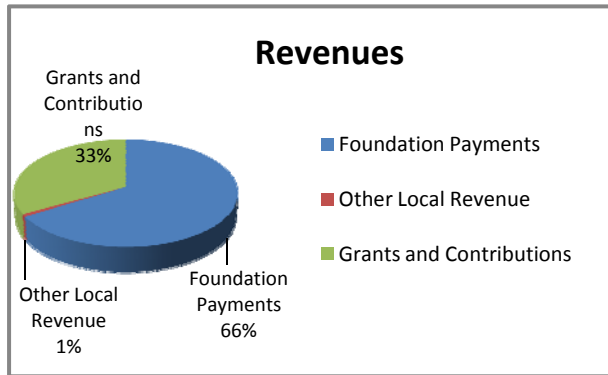
The Statement of Revenues, Expenses and Changes in Net Assets:

The Statement of Revenues, Expenses and Changes in Net Assets shows the operating and non-operating activities took place during the fiscal year.

The following charts and table are a summary of the Statement of Revenues, Expenses and Changes in Net Assets for the fiscal years ended June 30, 2010 and 2011.

**HORIZON SCIENCE ACADEMY DAYTON HIGH SCHOOL
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)
(Continued)**



	<u>June 30, 2010</u>	<u>June 30, 2011</u>
<u>Operational Income/Expense</u>		
Income		
Foundation Payments	1,658,621	1,693,289
Other Local Revenue	16,917	19,137
Total Operational Income	1,675,538	1,712,426
Expense		
Salaries	754,046	1,081,943
Benefits	190,063	318,760
Purchased Services	950,297	1,093,705
Supplies & Materials	117,010	156,351
Other Objects	65,225	69,571
Depreciation Expense	21,053	45,207
Total Operational Expense	2,097,694	2,765,537
Net Operational Income/Loss	(422,156)	(1,053,111)
<u>Non-Operational Income/Expense</u>		
Federal Grants	431,689	818,750
State Grants	5,000	7,728
Contributions and Donations	100,000	20,000
Management Fee Forgiveness	0	207,427
Interest Payments	(3,384)	(3,172)
Net Non-Operational Income	533,305	1,050,733
Change in Net Assets	111,149	(2,378)
Net Assets at Beginning of Year	0	111,149
Net Assets at End of Year	\$ 111,149	\$ 108,771

**HORIZON SCIENCE ACADEMY DAYTON HIGH SCHOOL
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)
(Continued)**

In the School's second fiscal year that ended June 30, 2011, salaries increased 43% comparing to its first fiscal year. This increase was due to hiring extra teachers in order to increase the School's academic achievement. With the extra staff members the School decreased student per teacher ratio significantly and thus increased its rating from Academic Watch to Continuous Improvement in 2010-2111 School year. The benefits also increased by 68%; partly due to increase in salaries and partly due to more staff members' electing to sign up for medical insurance.

The Federal grants increased by 90% due to \$255,000 Start-up grant and increase in the Title grants. The School's management company, Concept Schools agreed to write-off any unpaid management fees for the fiscal years 2010 and 2011; which totaled up to \$207,427. The School also received a contribution of \$20,000 from its landlord, New Plan Learning Inc., which is a non-profit organization that is purchasing and managing facilities for community schools. The purchased services also increased by 15% in the fiscal year 2011. The readers can see a breakdown of the expenditures under purchased services in the Notes to Financial Statements.

Capital Assets:

As of June 30, 2011, HSA Dayton High School had \$210,708 invested in capital assets such as office equipment, school furniture, computers and projectors net of depreciation. The following table is a summary of Capital Assets as of June 30, 2011.

Capital Assets				
	Beginning July 1, 2010	Additions	Deletions	Ending June 30, 2011
Instructional Furniture & Equipment	119,102	104,595		223,697
Office Furniture & Equipment	53,271			53,271
Total Fixed Assets	172,373	104,595		276,968
Less: Accumulated Depreciation	(21,053)	(45,207)		(66,260)
Net Fixed Assets	\$ 151,320	59,388		\$ 210,708

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 the School's Treasurer, Ryan Uysaler, by mail at Concept Schools South Ohio Regional Office, 2356 Morse Rd. Columbus, OH 43235 or by phone at 614- 428 7656.

**HORIZON SCIENCE ACADEMY DAYTON HIGH SCHOOL
MONTGOMERY COUNTY**

**Statement of Net Assets
June 30, 2011**

ASSETS	
Current Assets	
Cash and Cash Equivalents	84,749
Intergovernmental Receivable	100,794
Total Current Assets	185,543
Non-Current Assets	
Lease Security Deposit	33,000
Capital Assets (Net of Accumulated Depreciation)	210,708
Total Non-Current Assets	243,708
Total Assets	429,251
LIABILITIES & EQUITY	
Current Liabilities	
Accounts Payable	155,163
Accrued Wages	86,452
Payroll Liabilities	51,765
Capital Leases- Current	11,639
Total Current Liabilities	305,019
Long Term Liabilities	
Capital Leases- Long Term	15,461
Total Liabilities	320,480
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	183,608
Unrestricted	(74,837)
Total Net Assets	\$ 108,771

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

HORIZON SCIENCE ACADEMY DAYTON HIGH SCHOOL
MONTGOMERY COUNTY

**Statement of Revenues, Expenses
and Changes in Net Assets
For the Fiscal Year Ended June 30, 2011**

<u>Operational Income/Expense</u>	
Income	
Foundation Payments	1,693,289
Other Local Revenue	19,137
Total Operational Income	1,712,426
Expense	
Salaries	1,081,943
Benefits	318,760
Purchased Services	1,093,705
Supplies & Materials	156,351
Other Objects	69,571
Depreciation Expense	45,207
Total Operational Expense	2,765,537
Net Operational Loss	(1,053,111)
<u>Non-Operating Income/Expense</u>	
Federal Grants	818,750
State Grants	7,728
Contributions and Donations	20,000
Management Fee Forgiveness	207,427
Interest Payments	(3,172)
Net Non-Operating Income	1,050,733
Net Assets	
Change in Net Assets	(2,378)
Net Assets at Beginning of Year	111,149
Net Assets at End of Year	\$ 108,771

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENT

**HORIZON SCIENCE ACADEMY DAYTON HIGH SCHOOL
MONTGOMERY COUNTY**

**Statement of Cash Flows
For Fiscal Year Ended June 30, 2011**

	<u>June 30, 2011</u>
Cash Flows from Operating Activities	
Cash Received from State of Ohio	1,758,861
Cash Received from Other Operating Revenues	19,137
Cash Payments to Suppliers for Goods and Services	(991,542)
Cash Payments to Employees for Services	(1,066,439)
Cash Payments for Employee Benefits	(279,330)
Other Cash Payments	(69,571)
Net Cash Used for Operating Activities	(628,884)
Cash Flows from Noncapital Financial Activities	
Grants Received from Federal Gov	751,960
Grants Received from State	7,728
Donations and Contributions	20,000
Interest Payments	(3,172)
Net Cash Provided by Noncapital Financial Activities:	776,516
Cash Flows from Capital and Related Activities	
Payments for Capital Acquisitions	(104,595)
Payments for Capital Leases	(10,578)
Net Cash Provided for Capital and Related Activities	(115,173)
Net Increase in Cash and Cash Equivalents	32,459
Cash and Cash Equivalents at Beginning of Year	52,290
Cash and Cash Equivalents at End of Year	\$ 84,749

(Continued)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

HORIZON SCIENCE ACADEMY DAYTON HIGH SCHOOL
MONTGOMERY COUNTY

Statement of Cash Flows
For Fiscal Year Ended June 30, 2011
(Continued)

**Reconciliation of Operating Income to Net Cash
Provided by Operating Activities:**

Operating Loss (1,053,111)

**Adjustments to Reconcile Operating Loss to Net
Cash Provided by Operating Activities**

Depreciation 45,207

Changes in Assets and Liabilities

Increase in IG Receivable 65,573

Increase in Accounts Payable 51,086

Increase in Accrued Wages 15,504

Increase in Payroll Liabilities 39,430

Increase in Management Fee Forgiveness 207,427

Total Adjustments 424,227

Net Cash Used for Operating Activities \$ (628,884)

Note:

During the fiscal year ended June 30, 2011, Management Company fees of \$207,427 were forgiven and not evidenced by cash transactions.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HORIZON SCIENCE ACADEMY DAYTON HIGH SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Horizon Science Academy Dayton High School Inc. (the School), is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to address the needs of students in grades 7 through 12 in Dayton. 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 has been approved 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 Buckeye Hope Foundation (the Sponsor) for a period of one year commencing on July 1, 2009. It was extended for five more years on June 2, 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 fiscal year 2011 the School employed 44 personnel for up to 250 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

The School's basic financial statements consist of a Statement of Net Assets; a Statement of Revenues, Expenses, and Changes in Net Assets; and a Statement of Cash Flows. The School uses enterprise accounting to report on its financial activities. Enterprise accounting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

**HORIZON SCIENCE ACADEMY DAYTON HIGH SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting

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 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 twice a year. The contract between the School and its Sponsor does not prescribe any other budgetary process for the School.

D. Cash

To improve cash management, all cash received by the School is pooled in a central bank account. Total cash amount at the end of the fiscal year is presented as "Cash" in the Statement of Net Assets.

E. Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School maintains a capitalization threshold of \$1,000 for inventory assets and \$10,000 for fixtures and 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.

HORIZON SCIENCE ACADEMY DAYTON HIGH SCHOOL
MONTGOMERY COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All capital assets are depreciated. Furniture, computers, office equipment, and vehicles are depreciated using the straight-line method over the following estimated useful lives. Improvements to capital assets are depreciated using straight-line method 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.

	<u>Useful Life</u>
Improvements	3 to 10 years
Heavy Duty Office or Classroom Furniture	10 years
Computers and Other Electronic Equipment	3 to 5 years
Vehicles	3 to 10 years

F. Intergovernmental Revenues

In FY 2011 the School participated in the State Foundation Program, State Poverty Based Assistance Program and Special Education Program. Revenues received from these and other State programs are recognized as operating revenues. Amounts awarded under these programs in the fiscal year 2011 totaled \$1,693,289. The School also participates in Federal Title Grants Program and other Federal and State Grants Programs. Revenues from those grants programs are recognized as non-operating revenues.

G. Operating Revenues and Expenses

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

H. Compensated Absences

The School's 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 \$125 per each unused sick/personal day.

I. 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.

**HORIZON SCIENCE ACADEMY DAYTON HIGH SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Estimates

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

3. DEPOSITS AND INVESTMENTS

At June 30, 2011, the carrying book balance of the School's bank account at Chase Bank was \$84,749 and the cleared Bank balance was \$103,616. The bank balance was insured by FDIC up to \$250,000. The School had no investments at June 30, 2011 or during the fiscal year.

4. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011 was as follows:

Capital Assets				
	Beginning			Ending
	July 1, 2010	Additions	Deletions	June 30, 2011
Instructional Furniture & Equipment	119,102	104,595		223,697
Office Furniture & Equipment	53,271			53,271
Total Fixed Assets	172,373	104,595		276,968
Less: Accumulated Depreciation	(21,053)	(45,207)		(66,260)
Net Fixed Assets	\$ 151,320	\$59,388		\$ 210,708

5. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Plan Description – The School contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer 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 visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

**HORIZON SCIENCE ACADEMY DAYTON HIGH SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

5. DEFINED BENEFIT PENSION PLANS (Continued)

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2011, the allocation to pension and death benefits was 11.81 percent. The remaining 2.19 percent of the 14 percent employer contribution rate is allocated to the Medicare B and Health Care funds. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2011 and 2010 were \$8,593 and \$5,904, respectively. The full amount has been contributed for fiscal year 2011 and 2010.

B. State Teachers Retirement System

Plan Description – The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. 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 Street, Columbus, OH 43215-3771, by calling (888) 227-7877, 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 multiplied by a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**HORIZON SCIENCE ACADEMY DAYTON HIGH SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

5. DEFINED BENEFIT PENSION PLANS (Continued)

A DB or Combined Plan member with five or more years of 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon the recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. For the fiscal year ended June 30, 2011, plan members were required to contribute 10 percent of their annual covered salary. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

The School's required contribution for pension obligations to STRS Ohio for the fiscal year ended June 30, 2011 and 2010 were \$134,230 and \$92,020 respectively; For fiscal year 2011, 80.11 percent has been contributed for fiscal year 2011. The full amount has been contributed for fiscal year 2010.

6. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description – The School participates in two cost-sharing multiple-employer defined benefit OPEB plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For fiscal year 2011, 1.43 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for fiscal year 2011, this amount was \$35,800.

**HORIZON SCIENCE ACADEMY DAYTON HIGH SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

6. POSTEMPLOYMENT BENEFITS (Continued)

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School's contribution for health care for the fiscal years ended June 30, 2011 and 2010 were \$876 and \$212 respectively. The full amount has been contributed for fiscal year 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare Part B Fund. For 2011, this actuarially required allocation was 0.76 percent of covered payroll. The School's contribution for Medicare Part B for the fiscal years ended June 30, 2011 and 2010 were \$465 and \$351 respectively. The full amount has been contributed for fiscal year 2011 and 2010.

B. State Teachers Retirement System

Plan Description – The School contributes to the cost-sharing, multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School's contribution for health care for the fiscal years ended June 30, 2011 and 2010 were \$10,195 and \$7,078 respectively. For fiscal year 2011, 80.11 percent has been contributed for the fiscal year. The full amount has been contributed for fiscal year 2010.

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 fiscal year 2011, the School contracted with Selective Insurance Company for property and general liability insurance with a \$1,000,000 single occurrence limit and \$3,000,000 annual aggregate with no deductible. The School did not make any claims in the fiscal year.

**HORIZON SCIENCE ACADEMY DAYTON HIGH SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

A summary of the purchased service expenses during fiscal year 2011 were as follows:

Purchased Services	
Type	Amount
Professional Services	114,280
Rent and Property Services	538,032
Management Fees	222,516
Contracted Food Services	92,892
Pupil Transportation	59,722
Advertising and Communications	59,130
Staff Travel Expenses	7,133
Total	1,093,705

10. OPERATING LEASES

On June 22, 2009 the School entered into a ten year lease agreement with 250 Shoup Mill LLC., a subsidiary of New Plan Learning which is an Ohio based non-profit organization that acquires and manages school facilities for Concept Schools. The agreement is updated and extended in August 2011 until July 2041 upon the approval of a bond package in order to improve premises including the construction of a gym. After the improvements are completed the facilities will be shared with Horizon Science Academy Dayton Elementary School. The School's estimated rent share for the following three years will be as follows;

Sep 2011 – Aug 2012	\$282,672
Sep 2012 – Aug 2013	\$350,674
Sep 2013 – Aug 2014	\$469,266

**HORIZON SCIENCE ACADEMY DAYTON HIGH SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

11. CONTINGENCIES

A. Grants

In fiscal year 2011, the School received Federal and State grants in total of \$826,478. 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 for 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 Horizon Science Academy Dayton High School at June 30, 2011.

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. This adjustment resulted in an overpayment of \$18,694 for fiscal year 2011.

12. INTERGOVERNMENTAL RECEIVABLES

At June 30, 2011, the School's Intergovernmental Receivables included the following federal grants from Ohio Department of Education:

PCSP Start-up Grant	34,480
Federal Breakfast and Lunch Program	13,052
Title I	25,080
Title II-A Improving Teacher Quality	6,345
Title II-D Technology	559
IDEA Special Education	15,853
Race to Top	5,425
Total Intergovernmental Receivables	<u>\$ 100,794</u>

13. SPONSORSHIP AGREEMENT

On July 1, 2009, the School signed a sponsorship agreement with Buckeye Hope Community Foundation for one year. On June 2, 2010 it was extended for five years. 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. According to the contract agreed by both parties, the School pays 3% of its foundation revenues to the Sponsor. In fiscal year 2011, the school compensated the Sponsor in the amount of \$49,875.

**HORIZON SCIENCE ACADEMY DAYTON HIGH SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

14. MANAGEMENT COMPANY AGREEMENT

School contracted with Concepts Schools, Inc. on August 12, 2009 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 12% of the funds received from State. The total management fees incurred in the fiscal year 2011 was \$222,516. Of this amount \$56,000 was paid during the year and the remaining balance of \$166,516 and the balance of \$40,911 from the previous year were forgiven by Concept Schools.

15. SUBSEQUENT EVENTS

On March 31, 2012, the Board of Directors approved a \$250,000 loan from New Plan Learning at 0% interest rate. The Note was required to be paid back within two weeks.

**HORIZON SCIENCE ACADEMY DAYTON HIGH SCHOOL
MONTGOMERY COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Receipts	Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE			
<i>Passed through Ohio Department of Education</i>			
Child Nutrition Cluster:			
School Breakfast Program	10.553	\$75,419	\$75,419
National School Lunch Program	10.555	<u>20,454</u>	<u>20,454</u>
Total Child Nutrition Cluster		<u>95,873</u>	<u>95,873</u>
Total United States Department of Agriculture		<u>95,873</u>	<u>95,873</u>
UNITED STATES DEPARTMENT OF EDUCATION			
<i>Passed through Ohio Department of Education</i>			
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	84.010	176,719	179,493
ARRA Title I Grants to Local Educational Agencies, Recovery Act	84.389	<u>62,043</u>	<u>51,809</u>
Total Title I, Part A Cluster		<u>238,762</u>	<u>231,302</u>
Special Education Grants to States	84.027	50,413	66,266
Charter Schools	84.282	220,520	255,000
Educational Technology State Grants	84.318	1,521	616
Improving Teacher Quality State Grants	84.367	638	6,983
ARRA State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	144,233	144,233
ARRA State Fiscal Stabilization Fund (SFSF) - Race to the Top Incentive Grants, Recovery Act	84.395	<u> </u>	<u>5,425</u>
Total United States Department of Education		<u>656,087</u>	<u>709,825</u>
Total Federal Assistance		<u>\$751,960</u>	<u>\$805,698</u>

The notes to this schedule are an integral part of this schedule.

**HORIZON SCIENCE ACADEMY DAYTON HIGH SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) reports Horizon Science Academy Dayton High School (the School's) federal award programs' receipts and disbursements. The Schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

The School commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the School assumes it expends federal monies first.

NOTE C - MATCHING REQUIREMENTS

Certain Federal programs require the School to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The School has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.



Dave Yost • 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 High School
Montgomery County
250 Shoup Mill Road
Dayton, Ohio 45415

To the Board of Directors:

We have audited the financial statements of Horizon Science Academy Dayton High School, Montgomery County, (the School) as of and for the year ended June 30, 2011, which collectively comprise the School's basic financial statements and have issued our report thereon dated April 23, 2012. 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 the purpose of expressing our opinion on the financial statements, but not for the purpose of opining 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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance and Other Matters

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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain matters not requiring inclusion in this report that we reported to the School's management in a separate letter dated April 23, 2012.

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www.auditor.state.oh.us

Horizon Science Academy Dayton High School
Montgomery County
Independent Accountants' Report on Internal Control Over
Financial Reporting and On Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of management, Board of Directors, the School's sponsor, federal awarding agencies and pass-through entities, and others within the School. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

April 23, 2012



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Horizon Science Academy Dayton High School
Montgomery County
250 Shoup Mill Road
Dayton, Ohio 45415

To the Board of Directors:

Compliance

We have audited the compliance of Horizon Science Academy Dayton High School (the School) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the School's major federal programs for the year ended June 30, 2011. The summary of auditor's results section of the accompanying schedule of findings and questioned costs identifies the School's major federal programs. The School's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the School's compliance based on our audit.

Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the School's compliance with these requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School's compliance with these requirements.

As described in Finding 2011-002 in the accompanying schedule of findings and questioned costs, we were unable to obtain sufficient documentation supporting the School's compliance with the requirements of Title I, Part A Cluster regarding level of effort nor were we able to satisfy ourselves as to the School's compliance with this requirement by other auditing procedures.

As described in Finding 2011-001 in the accompanying schedule of findings and questioned costs, the School did not comply with requirements regarding allowable costs/cost principles applicable to its Title I, Part A Cluster major federal program. Compliance with these requirements is necessary, in our opinion, for the School to comply with requirements applicable to the program.

In our opinion, except for the effects of this noncompliance, if any, as we might have determined had we been able to examine sufficient evidence regarding the School's compliance with Title I, Part A Cluster's level of effort requirements and except for the noncompliance described in the preceding paragraph, the School complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The School's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with the requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the School's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2011-001 and 2011-002 to be material weaknesses.

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

We also noted other matters involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the School's management in a separate letter dated April 23, 2012.

We intend this report solely for the information and use of management, the Governing Board, the School's sponsor, others within the entity, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Dave Yost
Auditor of State

April 23, 2012

**HORIZON SCIENCE ACADEMY - DAYTON HIGH SCHOOL
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2011**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	Yes
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Title I, Part A Cluster – Qualified with Scope Limitation. Charter Schools - Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	Yes
(d)(1)(vii)	Major Programs (list):	Title I, Part A Cluster: Title I Grants to Local Educational Agencies, CFDA #84.010 ARRA - Title I Grants to Local Educational Agencies Recovery Act, CFDA #84.389 Charter Schools, CFDA #84.282
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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Finding Number	2011-001
CFDA Title and Number	84.010 –Title I Grants to Local Educational Agencies. 84.282 – Charter Schools
Federal Award Number / Year	2011
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

QUESTIONED COST, NONCOMPLIANCE AND MATERIAL WEAKNESS

34 CFR Section 74.42 states that the recipient shall maintain written standards of conduct governing the performance of its employees engaged in the award and administration of contracts. No employee, officer, or agent shall participate in the selection, award, or administration of a contract supported by Federal funds if a real or apparent conflict of interest would be involved. A conflict would arise when the employee, officer, or agent, any member of his or her immediate family, his or her partner, or an organization which employs or is about to employ any of the parties indicated herein, has a financial or other interest in the firm selected for an award. The officers, employees, and agents of the recipient shall neither solicit nor accept gratuities, favors, or anything of monetary value from contractors, or parties to sub-agreements. However, recipients may set standards for situations in which the financial interest is not substantial or the gift is an unsolicited item of nominal value. The standards of conduct shall provide for disciplinary actions to be applied for violations of these standards by officers, employees, or agents of the recipient.

2 CFR Part 225 Appendix A Part C provides following guidelines for an expenditure to be allowable under federal expenditures:

- Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
- Be authorized or not prohibited under State or local laws or regulations.
- Be adequately documented.

Additionally, **Section 7 of the Academy's management agreement with Concept Schools** states that all fees payable hereunder shall, at the Company's option, be made via electronic funds transfer. The School shall cooperate with the Company to set up and establish necessary accounts and procedures such that the School shall automatically transfer twelve percent (12%) of the funds received from the State, except for restricted CCIP grants, when such funds are immediately available in the School's accounts.

The Academy paid the following management fees to Concept Schools with federal funds, which was not in accordance with the section 7 of the management agreement; therefore, were prohibited under local law, were not adequately documented, and there was no indication that these costs were necessary and reasonable for proper and efficient performance and administration of federal awards:

**FINDING NUMBER 2011-001
 (Continued)**

Federal Program	CFDA #	Management Fees Charged
Title I Grants to Local Educational Agencies	84.010	\$47,000
Charter Schools	84.282	9,000
Total		<u>\$56,000</u>

Additionally, the management company is considered to be a related party as the Treasurer was employed by the management company, and payments of federal funds to a related party are not in accordance with **34CFR Section 74.42**.

The School should establish and implement conflict of interest policies in accordance with the federal requirements. All conflict of interest should be documented and the School should refrain from entering into procurement transactions that are not arm length transactions. Additionally, procedures should be established and implemented to verify that payments made are in accordance with 2 CFR Part 225 guidelines. Failure to do so could result in questioned cost and loss of grant revenue.

Related party payments listed above in amount of \$47,000 for Title I grant is considered questioned cost pursuant to OMB Circular A133 §____.510 (a)(3).

Official's Response: The School requests the withdrawal of this Finding for the following reasons:

The Finding raises two issues. First, the Finding incorrectly claims that the School's payment of federal funds to the management company violated the terms of the management agreement between the parties. The management agreement was effective August 12, 2009, long before the allocation of any the federal grants for FY 2011.

The School's agreement with the management company states in pertinent part:

- "7. All fees payable hereunder shall, at the Company's option, be made via electronic funds transfer. The School shall cooperate with the Company to set up and establish necessary accounts and procedures such that the School shall automatically transfer twelve percent (12%) of the funds received from the State, except for restricted CCIP grants, when such funds are immediately available in the School's accounts." Emphasis added.

Section 7 does not prohibit payments of federal funds from the School to the management company and the Auditor of State's Office ("AOS") has incorrectly interpreted Section 7. To understand Section 7 one needs to understand how charter schools receive funds from the State of Ohio ("State"). Charter schools receive monthly "foundation payments" from the State through the Ohio Department of Education ("ODE") based on the number of student enrolled. Additionally, charter schools may be eligible to receive on a pass through reimbursement basis from the State Title I and other federal grants. To become eligible for these grants, a School must complete the Comprehensive Continuous Improvement Plan (CCIP) through an ODE website. It is important to note that both the foundation payments and the federal Title grants are paid by the State of Ohio, which is referenced as "State" in Section 7.

Section 7 clearly states that the 12% management fee will be calculated based upon the funds received from the State (foundation payments), not the CCIP (or Title) grants, which are also paid by the State, but which the parties agreed to exclude for calculation purposes only. The agreement does not prohibit the payment of management fees (or other fees) from CCIP grants.

In support of this interpretation, in 2011 (and in prior years) the School complied with the agreement and did not include CCIP grants in the calculation of the 12% management fee.

**FINDING NUMBER 2011-001
(Continued)**

In FY 2011, the School's enrollment did not meet expectations and the management company decided to waive all management fees, which were calculated as described above. Instead, the management company billed the School for very basic services separately. The fees paid to the management company were for the School to obtain the management company's Quarterly OAA/OGT practice tests (\$27,000), for management company services in providing and maintaining the School's web site and school management database (\$20,000), and for the application and management of the Start-up grant (\$9,000). These School expenditures were proper uses of the federal funds used to pay the management company. Further, the services were explained in detail in the School's Planning Tool and PCSP Budget Narrative in CCIP and required allocations were made in Title I and PCSP budgets. The action steps and budget narrative clearly state these services would be provided by the management company. Both applications were examined and approved by the ODE's Federal Programs Consultants with their budgets. Therefore the payments were (i) in accordance with approved applications and budgets, (ii) necessary and reasonable for proper efficient performance and administration of Federal awards, (iii) authorized or not prohibited under State or locals laws or regulations, and (iv) adequately documented.

Instead of providing any reasoned analysis, the AOS simply makes the conclusory statement that the payment "was not in accordance with Section 7". In Ohio and in most other jurisdictions, contract language is given its plain and ordinary meaning. If a contract is clear and unambiguous, a court, or in this case the AOS, need not go beyond the plain language of the agreement to determine the rights and obligations of the parties. *Alexander*, 53 Ohio St.2d at 246, 374 N.E.2d at 150; *DiGioia*, 135 Ohio App.3d at 446, 734 N.E.2d at 445. Here the AOS was not entitled to go beyond the plain meaning of the agreement. The AOS has not and cannot point to any language in the agreement that specifically prohibits the payment of federal funds to a management company. On this basis alone, Finding 2011-001 should be removed.

The second basis for Finding 2011-001 is the AOS's claim that the payment to the management company as described above was improper because the management company is considered a "related party". In support of its position, the AOS quotes 34 CFR Section 74.42, which does not mention "related party", and, once again, the AOS reaches a conclusion without explaining how 34 CFR Section 74.42 applies to these facts or how it reached its conclusion that the management company is a "related party".

The School believes that the AOS has confused and misapplied 34 CFR Section 74.42, which states in pertinent part:

The recipient shall maintain written standards of conduct governing the performance of its employees engaged in the award and administration of contracts. No employee, officer, or agent shall participate in the selection, award, or administration of a contract supported by Federal funds if a real or apparent conflict of interest would be involved. A conflict would arise when the employee, officer, or agent, any member of his or her immediate family, his or her partner, or an organization which employs or is about to employ any of the parties indicated herein, has a financial or other interest in the firm selected for an award. The officers, employees, and agents of the recipient shall neither solicit nor accept gratuities, favors, or anything of monetary value from contractors, or parties to sub-agreements. However, recipients may set standards for situations in which the financial interest is not substantial or the gift is an unsolicited item of nominal value. The standards of conduct shall provide for disciplinary actions to be applied for violations of the standards by officers, employees, or agents of the recipient. (Emphasis added.)

**FINDING NUMBER 2011-001
(Continued)**

Here, the AOS claims that a conflict of interest was created when the School's Treasurer wrote one or more checks to the management company, his employer, and that the School should develop a conflict of interest policy. The School has a Conflict of Interest Policy ("Policy") and under that Policy or 34 CFR Section 74.42 the AOS has not and cannot establish that the Treasurer had a "financial or other interest" in the management company. Simply being an employee of the management company does not create a "financial or other interest" for the School's Treasurer and AOS has not provided any legal authority to support a contrary position.

The law under 34 CFR Section 74.42 is clear: grant recipients may set their own standards of conduct within certain broad parameters. Here, the School's Code of Ethics, which is part of the Code of Regulations, as well as the agreement between the School and the management company, are governed by Ohio law. Ohio has its own ethics laws and the Ohio Ethics Commission has jurisdiction over Ohio's public officials and employees and offers opinions related to Ohio's ethics laws. Assuming that the Treasurer is considered to be a public official, the facts and the law involving him demonstrate that he does not have a "financial or other interest" in his employer. A determination as to whether a public official has an "interest" in a contract with his own governmental agency depends on the facts and circumstances of each particular situation. See Advisory Opinion No. 84-009. The Ethics Commission has held that an employee of a firm, who has neither an ownership interest nor a fiduciary interest as an officer of the firm, is not generally considered to have an "interest" in the contracts entered into by his employer. See Advisory Opinion No. 78-006. However, an employee who has an ownership interest in or who is a director, trustee, or officer of his employer is considered to have an interest in his employer's contracts. See Advisory Opinions No. 78-006, 81-008, and 86-005.

None of these facts are present here. The Treasurer is not a director, trustee, or officer of his employer, nor did he participate in the negotiation of the contract. Nor is his compensation based on the proceeds from the contract between the School and the management company. Although he works for the management company, he is the School's Treasurer and he owes a fiduciary duty to the School not his employer. He did not administer or execute the contract. All he did was write checks for reimbursable expenses permitted under the federal grant.

For all of the foregoing reasons, this Finding should be removed.

Auditor of State's Conclusion:

Contract language between Concept Schools and the Horizon Science Academy – Dayton High School states that "all fees payable hereunder shall, at the Company's option, be made via electronic funds transfer. The School shall cooperate with the Company to set up and establish necessary accounts and procedures such that the School shall automatically transfer twelve percent (12%) of the funds received from the State, except for restricted CCIP grants, when such funds are immediately available in the School's accounts."

Auditor of State interprets the language in the contract prohibiting payment of management company fees from restricted CCIP grants. Title I Grants to Local Educational Agencies and Charter School grants are both restricted CCIP grants.

There was no indication in the Board minutes of the Board approval of any modification to the management company contract to allow for specific billings. Section 2 of the management agreement requires Concept School to provide the school with following services:

**FINDING NUMBER 2011-001
(Continued)**

2b.v. Assess for continuous improvement of student achievement

- a. Diagnostic tests
- b. Interim tests

2e. Technology Support

- i. Design, implement, and update school technology plans
- ii. Web design and content management
- iii. E-mail management, web hosting, an
- iv. d DNS management.

2l. Grant Writing

- i. Assistance in identifying and applying for grants
- ii. The Company, from time to time hereafter, may apply for available grants in the name of the School, which will:
 - a. Provide additional funding to the School
 - b. Aid the School in fulfilling the terms of the Contract and/or
 - c. Provide additional services and programs to the students;
- iii. Prior to the application for any grant funds, the Board of Trustees shall review and approve any grant application including any fees to be paid to the company

All services that the company is billing for are required part of the management contract and paid via 12% management company fee to be paid out of funds received from the State, except for restricted CCIP grants.

Additionally, moving cost that was previously paid from state funds to federal funds would result in supplanting which is unallowable under federal laws.

Plan overview for Title I states

- 1.1 Provide tutoring and other focused supplemental supports for children most at risk in reading and mathematics by Title I teachers.
- 1.2 District will purchase supplemental instructional and educational materials that support the scientifically research based curriculum of the district

There is no mention of services to be provided by the management company out of Title I grant. Additionally, the School provided an invoice from the management company summarizing services provided as support for the services provided. Invoice detailing services that could be used to determine if the services provided were in accordance with the grant and 2CFR Part 225 (A-87) were not provided.

Fiscal services are provided by the management company and the Treasurer who is a management company employee administers the grant expenditures on behalf of the management company. Additionally, grant writing services were performed by the management company. There is an apparent conflict of interest as the management company is bound to benefit from the contract. Due to lack of detailed invoice and lack of arms-length transaction it is impossible to determine that the school was billed correctly.

Finding Number	2011-002
CFDA Title and Number	84.010 –Title I Grants to Local Educational Agencies. 84.389 – ARRA - Title I Grants to Local Educational Agencies. 84.282 – Charter Schools
Federal Award Number / Year	2011
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

NONCOMPLIANCE AND MATERIAL WEAKNESS

OMB Circular A-133 Subpart C Section .300(b) requires the auditee to maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

The School spent \$231,302 (ARRA - \$51,809, non-ARRA \$179,493) in Title I funds during fiscal year 2011. \$64,340, or 28% of these expenditures were related to non-payroll cash disbursements. Additionally, the School spent \$255,000 in Public Charter School Program funds during fiscal year 2011, of which all were related to non-payroll disbursements. However, the School did not have adequate controls in place and operating effectively over these federal expenditures to prevent and detect material non-compliance. Lack of controls resulted in expenditures that were deemed unallowable per 2 CFR section 225 (formerly circular A-87). These issues have been reported as a separate finding in this report.

Additionally, lack of controls and/or inadequate controls were noted for the level of effort (maintenance of effort and supplement not supplant) compliance requirement in the Title I program. The School was unable to provide the Statewide Student Identifier (SSID) level count for selected grade and building Period N report from the Secure Data Center. Therefore, no compliance testing could be performed to determine if the School was compliant with level of effort - maintenance of effort for that particular report.

Appropriate controls should be developed and implemented at the School level to verify that controls will be able to prevent and detect any material non-compliance over federal programs. Failure to do so increases the likelihood of unallowable expenditures and material non-compliance with program requirements going undetected. Additionally, the School should implement procedures to verify that all applicable reports can be accessed. Failure to provide adequate support for an audit could result in scope limitation in future audits.

Official's Response:

The Auditor claims that the School has a lack of internal controls and cites unallowable expenditures discussed in the previous Finding. The Official's Response to finding 2011-001 discusses the School's position on why the expenditures were allowable under the appropriate uses of the grants identified.

**FINDING NUMBER 2011-002
(Continued)**

The remainder of this Finding concerns the level of documentation provided to the AOS in relation to the Title programs. The School has a 91% of Economically Disadvantaged student population. Accordingly, the School has been recognized as a "School-wide Building" and is not required to keep track of its Title I students. The School provided several reports to the Auditor of State including SOES report with its students' SSID numbers and grade levels, various EMIS reports and reports from Secure Data Center. We also attempted to provide the questioned report to the AOS but when the School tries to print the reports, the ODE computer system gives the following error message: "the request could not be processed due to a server error". It is hard to understand why the School is held accountable for ODE's server error, especially when the requested data was provided within other reports.

The School will review the internal controls that are currently in place and determine if further controls and/or changes are necessary.

Auditor of State's Conclusion:

The Auditor of State was unable to test compliance requirements related to level of effort due to the School not providing grade level reports. There were no other comparable reports provided by the School. Without testing compliance with level of effort, the Auditor of State is in no position to provide an opinion on this compliance requirement. Therefore, the compliance opinion has a scope limitation.

HORIZON SCIENCE ACADEMY DAYTON HIGH SCHOOL
MONTGOMERY COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2011

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-001	Net Asset Calculation	Yes	

**HORIZON SCIENCE ACADEMY DAYTON HIGH SCHOOL
MONTGOMERY COUNTY**

**CORRECTIVE ACTION PLAN
JUNE 30, 2011**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2011-001	The School will review the management agreement language to determine if changes are necessary.	6/30/2012	School Board of Directors
2011-002	The School will review the internal controls over federal expenditures to determine if changes are necessary.	6/30/2012	School Board of Directors and Designated Fiscal Officer.



Dave Yost • Auditor of State

Independent Accountants' Report on Applying Agreed-Upon Procedure

Horizon Science Academy Dayton High School
Montgomery County
250 Shoup Mill Road
Dayton, Ohio 45415

To the Board of Directors:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Horizon Science Academy Dayton High School (the School) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently, we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the School did not amend its anti-harassment policy to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

April 23, 2012



Dave Yost • Auditor of State

HORIZON SCIENCE ACADEMY DAYTON HIGH SCHOOL

MONTGOMERY 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, 2012**