



Dave Yost • Auditor of State

**HORIZON SCIENCE ACADEMY DAYTON DOWNTOWN
MONTGOMERY COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Horizon Science Academy Dayton Downtown
Montgomery County
121 South Monmouth Street
Dayton, Ohio 45403

To the Board of Directors:

We have audited the accompanying basic financial statements of the business-type activities of Horizon Science Academy Dayton Downtown, Montgomery County, (the School), as of and for the year ended June 30, 2011, which collectively comprise the School's basic financial statements 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 the business-type activities of Horizon Science Academy Dayton Downtown, 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 3, 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.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive, flowing style with a large loop at the end of the last name.

Dave Yost
Auditor of State

April 3, 2012

**HORIZON SCIENCE ACADEMY DAYTON DOWNTOWN
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 Downtown's (the School) financial performance provides an overall review of the financial activities for the first 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 at the end of first fiscal year was \$68,110
- The School had total operating revenues of \$ 971,297
- The School had total operating expenses of \$1,398,214
- Total current liabilities the end of first fiscal year was \$364,810
- The School received Federal and State Grants total of \$495,027

The School started its education in August 2010 with 140 students in grades K through 6. Financially, it had a very successful first year. The School applied for and earned a \$225,000 Public Charter School Program Start-up Grant. Later the allocation was increased another \$30,000. The School used \$118,000 of this grant for furnishing its classrooms with classroom furniture and electronic equipment. The rest of the grant was used for purchasing text books, classroom supplies, and advertisement. Also the School spent around \$141,000 in order to improve its facility which was leased as-is condition with a monthly rent of \$6,250.

Also, during its first year the School accepted loans of \$140,000 from Concept Schools, its Management Company and \$75,000 from Horizon Science Academy- Dayton, its sister school.

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. The Statement of Net Assets can be found on the page 7 of this report.

The following table provides a summary of the School's Net Assets at the end of its first fiscal year which ended June 30, 2011:

**HORIZON SCIENCE ACADEMY DAYTON DOWNTOWN
MONTGOMERY COUNTY**

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

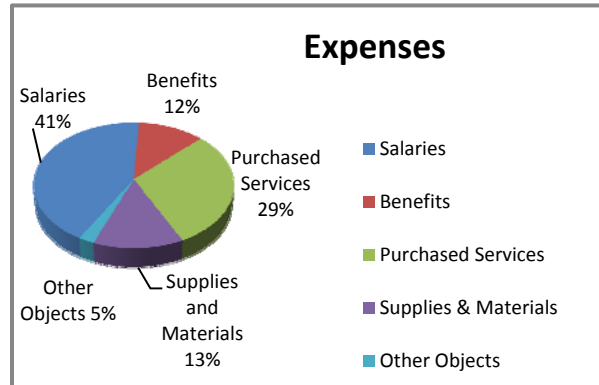
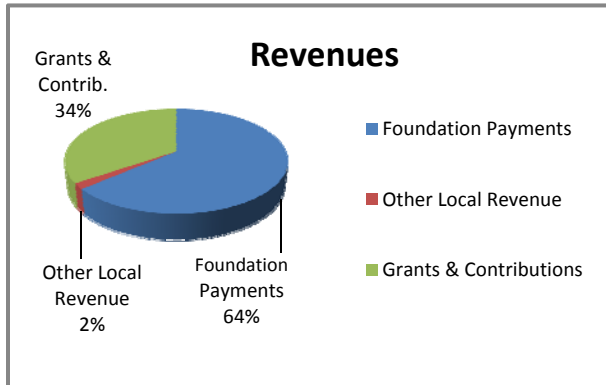
	June 30, 2011
Assets:	
Cash	\$45,949
Other Current Assets	102,519
Capital Assets	284,452
Total Assets	432,920
Liabilities:	
Current Liabilities	364,810
Total Liabilities	364,810
Net Assets	\$68,110

Other current assets include Intergovernmental Receivables from the State due to Federal Grants, and a \$10,000 deposit to the land lord for the lease agreement. During its first year, the School received a \$140,000 loan for its start-up expenses and improvements to be done on the facility. This loan was still payable at the end of fiscal year. The school also received another loan of \$75,000 from Horizon Science Academy Dayton during the year for its operating expenses. The balance of the loan at the end of the fiscal year was \$25,000.

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 School's first fiscal year ended June 30, 2011.



Operational Income/Expense:

Income:

Foundation Payments
Other Local Revenue
Total Operational Income

June 30, 2011
\$ 945,948
25,349
971,297
(Continued)

**HORIZON SCIENCE ACADEMY DAYTON DOWNTOWN
MONTGOMERY COUNTY**

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

	June 30, 2011
Expense:	
Salaries	580,411
Benefits	160,996
Purchased Services	408,437
Supplies & Materials	181,815
Other Objects	31,846
Depreciation Expense	34,709
Total Operational Expense	1,398,214
Net Operational Income	(426,917)
Non-Operational Income/Expense:	
Federal Grants	495,027
Net Non-Operational Income	495,027
Net Assets:	
Change in Net Assets	68,110
Net Assets at Beginning of Year	
Net Assets at End of Year	\$ 68,110

In its first academic year the School enrolled around 140 students and employed 18 staff members. The School received federal grants in the sum of \$495,027. The School paid \$69,164 for its first year rent and paid only \$30,000 for management fees. In its second year the school increased its enrollment to 175 students. The School expects to reach its full capacity which is 200 in the next school year.

Capital Assets:

As of June 30, 2011, the School had \$284,482 invested in capital assets such as school furniture, office equipment, 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		\$118,786		\$118,786
Office Furniture & Equipment		58,948		58,948
Improvements		141,426		141,426
Total Fixed Assets		319,161		319,161
Less: Accumulated Depreciation		(34,709)		(34,709)
Net Fixed Assets	\$0	\$284,453	\$0	\$284,452

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.

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**HORIZON SCIENCE ACADEMY DAYTON DOWNTOWN
MONTGOMERY COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2011**

Assets:

Current Assets:

Cash and Cash Equivalents	\$45,949
Intergovernmental Receivable	92,519
Lease Security Deposit	10,000
Total Current Assets	<u>148,468</u>

Non-Current Assets:

Capital Assets (Net of Accumulated Depreciation)	<u>284,452</u>
Total Assets	432,920

Liabilities and Equity:

Current Liabilities:

Accounts Payable	127,110
Accrued Wages	51,179
Payroll Liabilities	21,521
Note Payable to HSA- Dayton	25,000
Note Payable to Concept Schools	140,000
Total Current Liabilities	<u>364,810</u>

Total Liabilities	364,810
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Net Assets:

Investment in Capital Assets	284,452
Unrestricted	<u>(216,342)</u>
Total Net Assets	<u><u>\$68,110</u></u>

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

**HORIZON SCIENCE ACADEMY DAYTON DOWNTOWN
MONTGOMERY COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011**

Operating Revenue:

Foundation Payments	\$945,948
Other Local Revenue	25,349
Total Operational Revenue	<u>971,297</u>

Operating Expense:

Salaries	580,411
Benefits	160,996
Purchased Services	408,437
Supplies & Materials	181,815
Other Objects	31,846
Depreciation Expense	34,709
Total Operational Expense	<u>1,398,214</u>

Operating Loss (426,917)

Non-Operating Revenue/Expense

Federal Grants	495,027
Net Non-Operating Revenue	<u>495,027</u>

Net Assets

Change in Net Assets	68,110
Net Assets at Beginning of Year	<u>0</u>
Net Assets at End of Year	<u><u>\$68,110</u></u>

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

**HORIZON SCIENCE ACADEMY DAYTON DOWNTOWN
MONTGOMERY COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Increase/Decrease in Cash:

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$911,786
Cash Received from Other Operating Revenues	25,349
Cash Payments to Suppliers for Goods and Services	(503,672)
Cash Payments to Employees for Services	(529,232)
Cash Payments for Employee Benefits	(139,475)
Other Cash Payments	(31,846)
Net Cash Used for Operating Activities	<u>(267,090)</u>

Cash Flows from Noncapital Financial Activities

Grants Received from Federal Gov	436,670
Lease Deposit Payment	(10,000)
Loan from Concept Schools	140,000
Loan from HSA Dayton	75,000
Loan Payments to HSA- Dayton	(50,000)
Net Cash Provided by Noncapital Financial Activities:	<u>591,670</u>

Cash Flows from Capital and Related Activities

Payments for Capital Acquisitions	(278,631)
Net Cash Provided by Capital and Related Activities	<u>(278,631)</u>

Net Increase in Cash and Cash Equivalents 45,949

Cash and Cash Equivalents at Beginning of Year 0

Cash and Cash Equivalents at End of Year 45,949

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

Operating Loss	<u>(426,917)</u>
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Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities

Depreciation 34,709

Changes in Assets and Liabilities:

Increase in Accounts Payable	86,580
Increase in Wages Payable	51,179
Increase in Payroll Liabilities	21,521
Increase in Intergovernmental Receivable	(34,162)
Total Adjustments	<u>159,827</u>

Net Cash Used for Operating Activities (\$267,090)

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

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**HORIZON SCIENCE ACADEMY DAYTON DOWNTOWN
MONTGOMERY COUNTY**

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

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Horizon Science Academy Dayton Downtown (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 6 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 Community Hope Foundation (the Sponsor) for a period of five years commencing on July 1, 2010.

The School's financial activity began on July 1, 2010; however, the School did not receive state foundation or federal monies until August 11, 2010. Prior to this date the School received \$140,000 of loan proceeds from Concept Schools and \$75,000 of loan proceeds from Horizon Science Academy Dayton Elementary to cover their expenditures of \$206,023.

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 18 personnel for up to 140 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 DOWNTOWN
MONTGOMERY COUNTY**

**NOTES TO THE BASIC 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 in accordance with Ohio Revised Code 5705.391. 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. The School had no investments during fiscal year 2011.

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.

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.

**HORIZON SCIENCE ACADEMY DAYTON DOWNTOWN
MONTGOMERY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

	<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 \$911,786. 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. At the end of the fiscal year ended June 30, 2011 the School did not have any restricted net assets.

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.

**HORIZON SCIENCE ACADEMY DAYTON DOWNTOWN
MONTGOMERY COUNTY**

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

3. DEPOSITS AND INVESTMENTS

At June 30, 2011, the carrying book balance of the School's bank account at Chase Bank was \$45,949 and the Bank balance was \$54,219. The bank balance was insured by FDIC up to \$250,000. The School had no investments at June 30, 2011 or during the fiscal.

4. CAPITAL ASSETS

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

	Beginning July 1, 2010	Additions	Deletions	Ending June 30, 2011
Instructional Furniture & Equipment		\$118,786		\$118,786
Office Furniture & Equipment		58,948		58,948
Improvements		141,426		141,426
Total Fixed Assets		319,161		319,161
Less Accumulated Depreciation		(34,709)		(34,709)
Net Fixed Assets	\$0	\$284,452	\$0	\$284,452

5. DEFINED BENEFIT PENSION PLANS

A. 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 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 can be obtained by writing to the State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on 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 DCP 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 fifty and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The CP offers features of both the DBP and the DCP. In the CP, 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 DBP.

The DBP portion of the CP payment is payable to a member on or after age sixty; the DCP portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age fifty. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**HORIZON SCIENCE ACADEMY DAYTON DOWNTOWN
MONTGOMERY COUNTY**

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

5. DEFINED BENEFIT PENSION PLANS (Continued)

A DBP or CP 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 DCP who become disabled are entitled only to their account balance. If a member of the DCP 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 STRS Ohio 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 to STRS Ohio for the DBP were \$60,842 for the fiscal year ended June 30, 2011. For fiscal year 2011, 91 percent has been contributed for the DBP with the balance being reported as an intergovernmental payable.

The contribution to STRS Ohio for the DCP for fiscal year 2011 was \$5,003 made by the School and \$3,573 made by the plan members. The School did not have any employees participating in the CP.

B. School Employees Retirement System

Plan Description - The School participates in the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor 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 stand-alone financial report that can be obtained by visiting the SERS website at www.ohsers.org under employers/audit resources.

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 requirement of plan members and employers are established and may be amended by the SERS Retirement Board up to a statutory maximum amount 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 was allocated to the Medicare B and health care funds. The School's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2011, was \$3,494. For fiscal year 2011, 100 percent has been contributed.

**HORIZON SCIENCE ACADEMY DAYTON DOWNTOWN
MONTGOMERY COUNTY**

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

6. POSTEMPLOYMENT BENEFITS

A. State Teachers Retirement System

Plan Description - The School participates in a cost-sharing multiple-employer defined benefit Health Care 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. Ohio law authorizes STRS Ohio to offer the Plan. Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare Part B premiums. The Plan is included in STRS Ohio's financial report which can be obtained by calling (888) 227-7877 or by visiting the STRS Ohio Web site at www.strsoh.org.

Funding Policy - Chapter 3307 of the Ohio Revised Code 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 Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions. For fiscal year 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to postemployment health care. The School's contribution for health care for the fiscal years ended June 30, 2011, was \$5,065. For fiscal year 2011, 91 percent has been contributed.

B. School Employees Retirement System

Plan Description - The School participates in two cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plans administered by the School Employees Retirement System (SERS) for classified 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 obligation 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 by visiting the 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 fiscal 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.

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 year ended June 30, 2011, was \$423. For fiscal year 2011, 100 percent has been contributed.

**HORIZON SCIENCE ACADEMY DAYTON DOWNTOWN
MONTGOMERY COUNTY**

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

6. POSTEMPLOYMENT BENEFITS (Continued)

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare Part B Fund. For fiscal year 2011, this actuarially required allocation was .76 percent of covered payroll. The School's contribution for Medicare Part B for the fiscal year ended June 30, 2011, was \$225. For fiscal year 2011, 100 percent has been contributed.

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.

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	
<u>Type</u>	<u>Amount</u>
Instructional Services	\$18,211
Other Professional Services	43,387
Management Fees	30,000
Rent and Property Services	156,435
Advertising and Communications	30,588
Contracted Food Services	69,412
Pupil Transportation	52,463
Extra-Curricular Activities	2,245
Staff Travel Expenses	5,696
Total	<u>\$408,437</u>

10. OPERATING LEASES

On June 18, 2010 the School entered into a ten year lease agreement with Sasmaz Property Management Ltd. for the lease of school facility with a monthly rent of \$6,250 for the first year. In April 2011, upon the transfer of the building to MDN of Dayton LLLC., the School signed a contract with the new landlord for eight years. According to the contract the landlord gave a \$481,950 of allowance to the School for improvements on the building and acquisition and demolition of the real estates in the immediate vicinity of the school facility for parking. The School's current monthly rent is \$10,417 with an annual increase of 3%. Required lease payments for the following three years will be as follows;

**HORIZON SCIENCE ACADEMY DAYTON DOWNTOWN
MONTGOMERY COUNTY**

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

10. OPERATING LEASES (Continued)

Sep 2011 – Aug 2012	\$125,000
Sep 2012 – Aug 2013	\$128,750
Sep 2013 – Aug 2014	\$132,613

11. CONTINGENCIES

A. Grants

In fiscal year 2011, the School received Federal and State grants in total of \$495,027. 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 the 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. The result of this review resulted in an intergovernmental receivable in the amount of \$34,162.

12. INTERGOVERNMENTAL RECEIVABLES

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

Foundation Payments	34,162
PCSP Start-up Grant	30,000
Federal Breakfast and Lunch Program	12,369
Title I	2,975
Title II-A Improving Teacher Quality	2,535
Title II-D Technology	240
IDEA Special Education	10,238
Total Intergovernmental Receivables	<u>\$ 92,519</u>

13. NOTES PAYABLES

At the beginning of its first fiscal year the School received an interest free loan of \$140,000 from Concept Schools, its management company with a promissory note; in order pay for the start-up expenses and improvement of the facility. The School expects to pay the entire amount off in fiscal year 2012. During the year the School also borrowed \$75,000 from Horizon Science Academy Dayton, its sister school in order to provide cash for its operational costs. The balance of the loan at June 30, 2011 was \$25,000. The School plans to pay the reaming balance in fiscal year 2012.

**HORIZON SCIENCE ACADEMY DAYTON DOWNTOWN
MONTGOMERY COUNTY**

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

14. SPONSORSHIP AGREEMENT

On May 19, 2010, the School signed a sponsorship agreement with Buckeye Community Hope Foundation for five years until June 30, 2015. 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's compensation to the Sponsor occurred as \$27,353.

15. MANAGEMENT COMPANY AGREEMENT

The School contracted with Concepts Schools, Inc. on June 2, 2010 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. Due to the start-up costs, Concept Schools agreed to charge only \$30,000 for the first year.

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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 Downtown
Montgomery County
121 South Monmouth Street
Dayton, Ohio 45403

To the Board of Directors:

We have audited the financial statements of the business-type activities of Horizon Science Academy Dayton Downtown, 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 3, 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. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings that we consider a significant deficiency in internal control over financial reporting. We consider finding 2011-001 to be a significant deficiency. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item, 2011-001.

We also noted a certain matter not requiring inclusion in this report that we reported to the School's management in a separate letter dated April 3, 2012.

The School's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the School's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of management, Board of Directors, Buckeye Community Hope Foundation (the Sponsor), Concept Schools Inc (the Management Company), 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, flowing style with a large loop at the end of the last name.

Dave Yost
Auditor of State

April 3, 2012

**HORIZON SCIENCE ACADEMY DAYTON DOWNTOWN
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2012**

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

FINDING NUMBER 2011-001

Finding for Recovery Repaid Under Audit

Significant Deficiency/Noncompliance – Overpayment of Wages

State ex rel. McClure v. Hageman. 155 Ohio St. 320 (1951), provides that expenditures made by a governmental unit should serve a public purpose. Typically the determination of what constitutes a “proper public purpose” rests with the judgment of the governmental entity, unless such determination is arbitrary or unreasonable. Even if a purchase is reasonable, Ohio Attorney General Opinion 82-006 indicates that it must be memorialized by a duly enacted ordinance or resolution and may have a prospective effect only. **Auditor of State Bulletin 2003-005 Expenditures 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.

Per the October 11, 2010 minutes of the Board of Directors Meeting, the hourly rate for Ana Kinkade, Spanish Teacher was set at \$15.00 per hour. For the pay-dates of February 28, 2011 and March 16, 2011, Ms. Kinkade worked 12 hours on each pay-period and was paid in error \$30 per hour. There was no indication that the Academy’s board approved the overpayments to Ms. Kinkade. Additionally, there was documentation to support that the overpayments were otherwise for a proper public purpose.

Hourly Rate	\$ 15.00
Hours Worked from 02/15/11 to 03/09/11	24
Salary due to employee	<u>\$360.00</u>
Salary paid	<u>720.00</u>
Overpayment	\$360.00
Less:	
STRS to be refunded	36.00
Medicare to be refunded	5.00
State tax to be refunded	2.00
City tax to be refunded	<u>8.00</u>
Net Overpayment	<u><u>\$309.00</u></u>

In accordance with the foregoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery is hereby rendered, for money illegally expended, against Ana Kinkade, Spanish Teacher, in the amount of \$309, and in favor of Horizon Science Academy Dayton Downtown’s treasury.

To improve controls over the payment of salaries and to help reduce the possibility of the School’s funds being improperly spent, additional procedures should be implemented to properly assure that the proper rate for payroll is being used.

Official Response:

Upon notification of the error by the Auditor of States’ office, the school notified Ana Kinkade, Spanish Teacher. Ana Kinkade repaid the school \$309.26 on November 22, 2011 on receipt # 551000.

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Independent Accountants' Report on Applying Agreed-Upon Procedure

Horizon Science Academy Dayton Downtown
Montgomery County
121 South Monmouth Street
Dayton, Ohio 45403

To the Board of Education:

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 Downtown (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 Board adopted an anti-harassment policy at its meeting on October 13, 2011 to include violence with dating relationship within its definition of harassment, intimidation of 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 black ink that reads "Dave Yost".

Dave Yost
Auditor of State

April 3, 2012

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Dave Yost • Auditor of State

HORIZON SCIENCE ACADEMY DAYTON DOWNTOWN

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
MAY 10, 2012**