



**HORIZON SCIENCE ACADEMY OF COLUMBUS
FRANKLIN COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2005



**Auditor of State
Betty Montgomery**

**HORIZON SCIENCE ACADEMY OF COLUMBUS
FRANKLIN COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Horizon Science Academy of Columbus
Franklin County
1070 Morse Road
Columbus, Ohio 43219

To the Board of Trustees:

We have audited the accompanying basic financial statements of Horizon Science Academy of Columbus, Franklin County, Ohio (the School) as of and for the year ended June 30, 2005. 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 Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Horizon Science Academy of Columbus, Franklin County, Ohio as of June 30, 2005, and the changes in its financial position and its cash flow 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 August 8, 2006, 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.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

August 8, 2006

**HORIZON SCIENCE ACADEMY OF COLUMBUS
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

The discussion and analysis of Horizon Science Academy of Columbus' (the School) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2005. 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 2005 are as follows:

- Total net assets decreased \$86,687 in fiscal year 2005.
- Due to increased enrollment, total revenue increased from \$2,098,023 in fiscal year 2004 to \$3,033,522 in fiscal year 2005.
- Similarly, total expenses increased from \$1,742,156 in fiscal year 2004 to \$3,120,209 in fiscal year 2005.
- Current liabilities increased \$189,332 with current assets decreasing \$282,458 in fiscal year 2005.
- The School incurred additional capital leases due to additional office equipment/furniture for the high school.

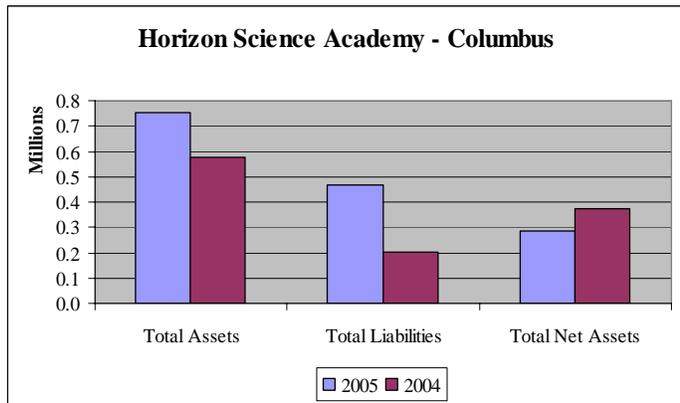
Using this Financial Report

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

The *Statement of Net Assets* and *Statement of Revenues, Expenses, and Changes in Net Assets* reflect how the School did financially during fiscal year 2005. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting includes all of the current year revenues and expenses regardless of when cash is received or paid.

These statements report the School's *net assets* and changes in those assets. This change in net assets is important because it tells the reader whether the *financial position* of the School has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School's student enrollment, per-pupil funding as determined by the State of Ohio, change in technology, required educational programs and other factors.

	2005	2004
<u>Assets:</u>		
Cash and Other Current Assets	\$101,495	\$383,953
Non-Current Assets	43,375	43,375
Capital Assets, Net	608,891	151,638
Total Assets	753,761	578,966
<u>Liabilities:</u>		
Current Liabilities	393,978	204,646
Long Term Liabilities	72,150	0
Total Liabilities	466,128	204,646
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	500,922	149,094
Restricted	43,375	43,375
Unrestricted	(256,664)	181,851
Total Net Assets	\$287,633	\$374,320



**HORIZON SCIENCE ACADEMY OF COLUMBUS
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Table 1 provides a summary of the School's net assets as of June 30, 2005 compared to the prior year.

The School uses enterprise presentation for all of its activities.

Cash and other current assets decreased from \$383,953 in 2004 to \$101,495 in 2005. This decrease is a result of a significant decrease in cash due to the opening of a new high school. The school required significant investments in leasehold improvements, furniture, equipment and textbooks.

In addition, Capital Assets, Net of Related Debt increased by \$457,253 from 2004 to 2005. This is due to the purchase of computer and related equipment and other office equipment/furniture less depreciation on all assets. In addition, the school made improvements to its new facility building.

Total liabilities increased by \$261,482 due to increases in current liabilities such as accrued wages, accounts payable, and additional capital leases incurred by the school during 2005.

Total net assets decreased by \$86,687. This decrease was primarily due to additional expenses related to the opening of the new high school, including salaries, materials and supplies, etc.

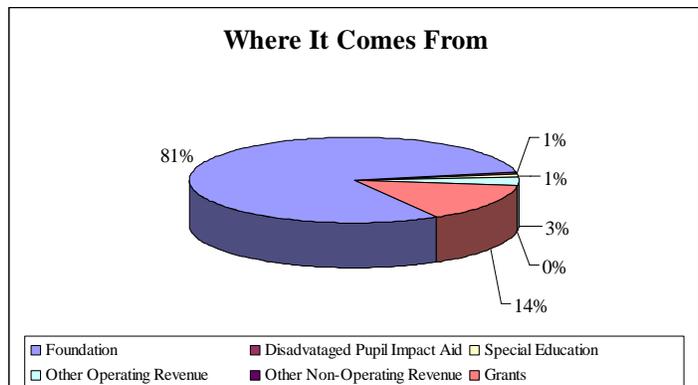
Table 2 shows Changes in Net Assets for fiscal year 2005 compared with fiscal year 2004.

The revenue generated by a community school is almost entirely dependent on per-pupil allotment given by the State foundation and from federal entitlement programs. Foundation payments made up 81% of revenues for the School in fiscal year 2005. Other operating revenue increased due to increased state funding to aid in the daily operations of the school. The growth in funding corresponds to the growth in per pupil allotment. Enrollment (based on FTE) for fiscal year 2004 was 281 compared to 435 in fiscal year 2005. The 45% increase in overall revenue is related to increased student enrollment for its two facilities.

	2005	2004
<u>Operating Revenues</u>		
Foundation	\$2,433,064	\$1,532,227
Disadvantaged Pupil Impact Aid	\$27,289	\$14,217
Special Education	\$37,680	\$34,904
Other Operating Revenue	98,416	66,922
<u>Non-Operating Revenues</u>		
Grants	435,769	414,754
Other Non-Operating	1,304	34,999
Total Revenues	3,033,522	2,098,023
<u>Operating Expenses</u>		
Salaries	1,393,554	919,476
Fringe Benefits	255,523	224,606
Purchased Services	940,187	409,275
Materials and Supplies	366,058	140,478
Depreciation	102,123	39,614
Other Operating Expenses	50,081	7,834
<u>Non-Operating Expenses</u>		
	12,683	873
Total Expenses	3,120,209	1,742,156
Total Increase in Net Assets	(\$86,687)	\$355,867

Budgeting Highlights

The School is not required to follow the budgetary provisions set forth in Ohio Revised Code Section 5705.



**HORIZON SCIENCE ACADEMY OF COLUMBUS
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Capital Assets and Debt Administration

Capital Assets, Net and Other Long Term Assets

At the end of fiscal year 2005, the School had \$608,891 net of depreciation in capital assets. The notes to the basic financial statements provide additional information about the School's capital assets.

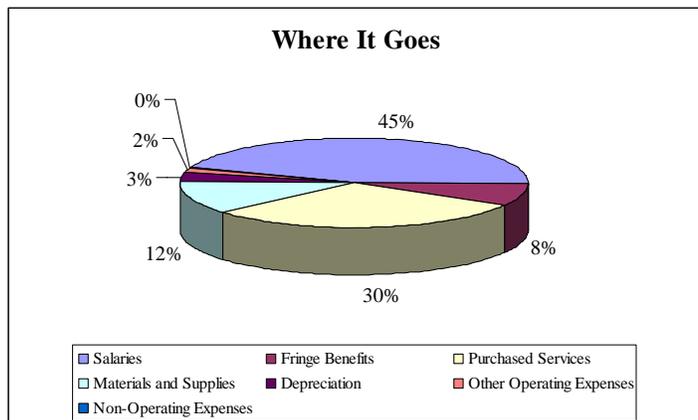
Debt

At June 30, 2005, the School had long term liabilities due to additional office equipment/furniture purchased for its new facility. The school borrowed \$250,000 from Horizon Science Academy of Cleveland for short term financing to for the expansion into the Morse Rd Facility. This debt has been repaid as of June 30, 2005.

Current Financial Related Activities

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

In October 2004, the School added a new facility on Morse Rd. This site houses the high school, while the Bethel Rd facility maintains the middle school. This new facility is an integral part of the growth that was required to maintain the program. The new building has a large multipurpose room for the gymnasium and lunch room. Splitting up the middle school and high school has allowed for continued growth at both locations.



Contacting the School's Financial Management

This financial report is designed to provide citizens, taxpayers, and creditors with a general overview of the School's finances. Questions concerning any of the information in this report or requests for additional information should be directed to Steve Gulkesen, Treasurer/Business Manager, Horizon Science Academy of Columbus, Inc. 1070 Morse Rd. Columbus, OH 43219.

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Horizon Science Academy of Columbus
Statement of Net Assets
June 30, 2005

Assets

Current Assets:

Cash and Cash Equivalents	\$84,975
Intergovernmental Receivable	<u>16,520</u>

Total Current Assets 101,495

Noncurrent Assets:

Security Deposit Held by Lessor	43,375
Capital Assets, Net of Accumulated Depreciation	<u>608,891</u>

Total Noncurrent Assets 652,266

Total Assets 753,761

Liabilities

Current Liabilities:

Accounts Payable	116,048
Accrued Wages and Benefits	167,266
Capital Lease-Current	35,819
Compensated Absences	7,450
Intergovernmental Payable	<u>67,395</u>

Total Current Liabilities 393,978

Long-Term Liabilities:

Capital Leases	<u>72,150</u>
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Total Long-Term Liabilities 72,150

Total Liabilities 466,128

Net Assets

Invested In Capital Assets, Net of Related Debt	500,922
Restricted	43,375
Unrestricted	<u>(256,664)</u>

Total Net Assets \$287,633

See accompanying notes to the basic financial statements

Horizon Science Academy of Columbus
Statement of Revenues,
Expenses and Changes in Net Assets
For the Fiscal Year Ended June 30, 2005

<u>Operating Revenues</u>	
Foundation	\$2,433,064
Disadvantaged Pupil Impact Aid	27,289
Special Education	37,680
Extracurricular Revenue	14,078
Instructional Fees	24,030
Food Service	20,597
Other Operating	<u>39,711</u>
 Total Operating Revenues	 <u>2,596,449</u>
<u>Operating Expenses</u>	
Salaries	1,393,554
Fringe Benefits	255,523
Purchased Services	940,187
Materials and Supplies	366,058
Depreciation	102,123
Other	<u>50,081</u>
 Total Operating Expenses	 <u>3,107,526</u>
 Operating Loss	 <u>(511,077)</u>
<u>Non-Operating Revenues (Expenses)</u>	
Grants	435,769
Contributions & Donations	1,304
Interest Expense on Capital Lease	(7,110)
Interest Expense on Notes	<u>(5,573)</u>
 Total Non-Operating Revenues (Expenses)	 <u>424,390</u>
 Change in Net Assets	 (86,687)
 Net Assets Beginning of Year	 <u>374,320</u>
 Net Assets End of Year	 <u><u>\$287,633</u></u>

See accompanying notes to the basic financial statements

Horizon Science Academy of Columbus
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2005

Increase (Decrease) in Cash	
<u>Cash Flows from Operating Activities</u>	
Cash Received from State	\$2,498,033
Cash Received from Students	58,705
Other Cash Receipts	39,711
Cash Payments to Employees for Services	(1,328,085)
Cash Payments for Employee Benefits	(256,123)
Cash Payments for Goods and Services	(1,180,201)
Other Cash Payments	<u>(35,994)</u>
Net Cash Used for Operating Activities	<u>(203,954)</u>
<u>Cash Flows from Noncapital Financing Activities</u>	
Grants Received	435,383
Principal Paid on Notes	(252,959)
Interest Paid on Notes	(5,573)
Proceeds from Notes	250,000
Contributions and Donations	<u>1,304</u>
Net Cash Provided by Noncapital Financing Activities	<u>428,155</u>
<u>Cash Flows from Capital and Related Financing Activities</u>	
Payments for Capital Acquisitions	(555,359)
Capital Lease-Interest Payments	(7,110)
Capital Lease-Principal Payments	(26,253)
Capital Lease-Proceeds	<u>131,677</u>
Net Cash Used in Capital Financing Activities	<u>(457,045)</u>
Net Decrease in Cash	(232,844)
Cash at Beginning of Year	<u>317,819</u>
Cash at End of Year	<u><u>\$84,975</u></u>
<u>Reconciliation of Operating Loss to Net Cash Used for Operating Activities</u>	
Operating Loss	(\$511,077)
Adjustments:	
Depreciation	102,123
(Increase) Decrease in Assets:	
Prepays	50,000
Increase (Decrease) in Liabilities:	
Accounts Payable	90,319
Accrued Wages	58,019
Compensated Absences	7,450
Intergovernmental Payable	<u>(788)</u>
Net Cash Used for Operating Activities	<u><u>(\$203,954)</u></u>

See accompanying notes to the basic financial statements

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**HORIZON SCIENCE ACADEMY OF COLUMBUS
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Horizon Science Academy of Columbus, Inc. (the School), also known as Horizon Educational Services of Columbus, Inc., is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to address the needs of students in grades seven through nine, which has since been modified to include grades ten through twelve. The School, which is part of the State's education program, is independent of any School and is nonsectarian in its programs, admission policies, employment practices, and all other operations.

The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School. The School qualifies as an exempt organization under Section 501(c) (3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the school's tax-exempt status.

The School was approved for operation with the Ohio Department of Education which expired on June 30, 2004. The School is currently under contract with the Lucas County Education Service Center (the Sponsor) for a period of five years commencing July 1, 2004.

The School operates under the direction of a self-appointed five-member Board of Trustees. The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board of Trustees controls the School's two instructional/support facilities staffed by 7 classified and 42 certificated full time teaching personnel who provide services to up to 435 students during the year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis Of Presentation

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

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

**HORIZON SCIENCE ACADEMY OF COLUMBUS
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the School are included on the Statement of Net Assets. The Statement of Revenues, Expenses, and Changes in Net Assets present increases (e.g., revenues) and decreases (e.g., expenses) in total net assets.

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

C. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the School and its sponsor. The contract between the School and its Sponsor does not prescribe a budgetary process for the School.

D. Cash

To improve cash management, all cash received by the School is pooled in a central bank account. The School did not have any investments during fiscal year 2005.

E. Prepaid Items

Payments made to vendors that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the payment and an expense is reported in the year in which benefit is received.

F. Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School maintains a capitalization threshold of one thousand dollars per its capital asset policy. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Improvements are capitalized. The School does not capitalize interest.

**HORIZON SCIENCE ACADEMY OF COLUMBUS
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Capital Assets and Depreciation (Continued)

Furniture, fixtures, vehicles and equipment are depreciated using the straight-line method over the following estimated useful lives. Improvements to capital assets are depreciated over the remaining useful lives of the related capital assets. Leasehold improvements are depreciated using the straight-line method over the life of the lease.

Useful Life:	
Furniture and Fixtures	10 years
Equipment and Vehicles	5 - 10 years
Leasehold Improvements	5 - 10 years (life of lease)

G. Intergovernmental Revenues

The School currently participates in the State Foundation Program, Special Education Program, and the State Disadvantaged Pupil Impact Aid (DPIA) Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the school must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the school on a reimbursement basis.

Amounts awarded under these programs for the 2005 school year totaled \$2,933,802.

H. Operating Revenues and Expenses

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

I. Compensated Absences

School policy indicates that all leave earned by employees must be used in the current period and balances are not carried forward, and, therefore, are not recorded as a liability. For the fiscal year ending June 30, 2005, the School elected to pay employees for unused leave, which amounted to \$7,450 and has been recorded as a payable as of June 30, 2005.

**HORIZON SCIENCE ACADEMY OF COLUMBUS
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors, or contracts. The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The School had restricted net assets related to amounts held by a lessor as part of the School's lease agreement.

K. Estimates

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

3. CHANGE IN ACCOUNTING PRINCIPLE

For the fiscal year ended June 30, 2005, the School implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures", which modifies the disclosures for deposits and investments. See Note 4 "Deposits" for the required disclosures.

4. DEPOSITS

Custodial credit risk is the risk that, in the event of bank failure, the School's deposits may not be returned. The School does not have a policy for custodial credit risk. At June 30, 2005, the carrying amount of the School's deposits was \$84,975, and the bank balance was \$144,048. \$100,000 of the total bank balance was insured by FDIC. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", \$44,048 was uninsured and uncollateralized. The School had no investments at June 30, 2005 or during the fiscal year. There are no significant statutory restrictions regarding deposit and investment of funds by the School.

5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Balance			Ending
	July 1,2004	Additions	Deletions	June 30,2005
Leasehold Improvements	\$319,320	\$ 200,000	\$ -	\$ 519,320
Furniture and Fixtures	48,713	210,796	-	259,509
Equipment	58,056	148,580	-	206,636
Vehicles	7,875	-	-	7,875
Total Fixed Assets	\$433,964	\$559,376	\$ -	\$ 993,340
Less: Accumulated Depreciation	(282,326)	(102,123)		(384,449)
Net Fixed Assets	\$151,638	\$457,253	\$ -	\$ 608,891

**HORIZON SCIENCE ACADEMY OF COLUMBUS
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

6. SECURITY DEPOSIT

According to the terms of the School's operating lease for the middle school buildings, the School paid the lessor \$43,375 during fiscal year 2000 as a security deposit for the building lease. This amount is being held by B&A Realty and will be remitted to the School at the end of the lease if all lease commitments are paid.

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling 614-222-5853.

Plan members are required to contribute 10% of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14% of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for the fiscal year 2005, 10.57% of annual covered salary was the portion to fund pension obligations. For fiscal year 2004, 9.09% was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board.

The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$12,221, \$10,555, and \$5,184, respectively; 81% has been contributed for fiscal year 2005 and 100% has been contributed for fiscal years 2004 and 2003.

B. State Teachers Retirement System

The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

**HORIZON SCIENCE ACADEMY OF COLUMBUS
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2005, plan members were required to contribute 10% of their annual covered salaries. The School was required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations for the fiscal years ended June 30, 2005, 2004, and 2003 were \$156,164, \$115,275, and \$89,677 respectively; 85 percent has been contributed for fiscal year 2005 and 100 percent has been contributed for fiscal years 2004 and 2003.

**HORIZON SCIENCE ACADEMY OF COLUMBUS
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

8. POSTEMPLOYMENT BENEFITS

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year ended June 30, 2005, the STRS Ohio Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the School, this amount equaled \$12,059 for fiscal year 2005.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Reserve fund was \$3.3 billion at June 30, 2005. For the fiscal year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254.780 million and STRS Ohio had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004.

In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2005 fiscal year equaled \$6,051. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Net health care costs for the year ended June 30, 2005 were \$178,221,113. The target level for the health care reserve is 150% of projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168% of next year's projected net health care cost of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long run, to provide for a health care reserve equal to at least 150% of estimated annual net claim costs. The number of participants eligible to receive benefits is 58,123.

**HORIZON SCIENCE ACADEMY OF COLUMBUS
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

9. RISK MANAGEMENT

A. Property and Liability

The School is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the School contracted with Auto Owner Insurance Company for property and general liability insurance with a \$1,000,000 single occurrence limit and \$3,000,000 annual aggregate and no deductible. There has been no reduction in coverage over the prior year. There have been no settlements exceeding coverage in the last three years.

B. Workers Compensation

The School pays the State Workers Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State. The School did not owe for this premium as of June 30, 2005.

10. EMPLOYEE MEDICAL AND DENTAL BENEFITS

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

11. PURCHASED SERVICES

Purchased service expenses during fiscal year 2005 were as follows:

Type	Amount
Professional Services	\$185,565
Rent and Property Services	544,035
Travel	2,031
Advertising and Communications	79,472
Utilities	56,165
Pupil Transportation	48,630
Other Purchased Services	24,289
Total	\$940,187

**HORIZON SCIENCE ACADEMY OF COLUMBUS
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

12. CAPITAL LEASES - LESSEE DISCLOSURE

During current and prior years, the School entered into several capitalized lease agreements for equipment. The leases meet the criteria of a capital lease as defined by *Statement of Financial Accounting Standards No. 13, "Accounting for Leases,"* which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital assets of \$131,677 have been recorded, which represents the present value of the minimum lease payments at time of acquisition. The accumulated depreciation for the capital lease assets was \$26,336 at June 30, 2005. Principal payments for fiscal year 2005 totaled \$26,253. The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2005.

Fiscal Year end June 30,	Lease Payments
2006	\$43,306
2007	43,306
2008	19,449
2009	11,628
2010	<u>3,037</u>
Total Minimum Lease Payments	<u>120,726</u>
Less Interest	<u>(12,757)</u>
Present Value of Minimum Lease Payments	<u>\$107,969</u>

13. NOTES PAYABLE

The School had an outstanding balance of \$2,959 payable to National City Bank on July 1, 2004, for computer financing. This amount was repaid during the fiscal year. The School also entered into a promissory note with the Horizon Science Academy – Cleveland during fiscal year 2005 in the amount of \$250,000. The School was to make eight (8) equal installments of \$31,798.22 commencing on November 10, 2004 with a final payment of \$32,921.02 due on June 10, 2005. As of June 30, 2005, the School repaid the note in its entirety along with \$5,573 in interest.

<u>Lender</u>	<u>Interest</u>	<u>Balance</u> <u>July 1, 2004</u>	<u>Proceeds</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2005</u>
National City	10.73%	\$2,959	\$0	\$2,959	\$ 0
Horizon-Cleveland	6.00%	0	250,000	\$250,000	0

14. OPERATING LEASES

The School entered into an operating lease in fiscal year 1999 for the middle school facilities on Bethel Rd. The operating lease included an annual increase. Under generally accepted accounting principles, the School was recognizing lease expenses on a straight line basis and recorded an operating lease payable for the difference between cash payments and the amount expensed.

On June 30, 2003, the School renegotiated the lease agreement. The new six year lease includes an annual 4% increase that management considers to be a normal cost of living increase. Required payments for the renegotiated lease are as follows:

Fiscal year ending:	Amount to be paid
June 30, 2006	\$201,664
June 30, 2007	209,731
June 30, 2008	218,120
June 30, 2009	226,845

**HORIZON SCIENCE ACADEMY OF COLUMBUS
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

14. OPERATING LEASES (Continued)

The School also entered into a lease agreement for the high school facilities on Morse Road with Breeze, Inc.. Since the facilities were not ready for occupancy, the School entered into another lease agreement with Equity Dublin Associates from September 7, 2004 to October 7, 2004 for 11,400 square feet of rentable space located at Corporate Park of Dublin, Ohio. The School was responsible for paying \$11,100 as security deposit as well as one months' rent in the same amount.

The School resumed its lease with Breeze, Inc. on October 7, 2004 for a lease term of three (3) years at 1070 Morse Road. The lease includes an annual 4% increase that management considers to be a normal cost of living increase. Required payments for the lease are as follows:

<u>Fiscal year ending:</u>	<u>Amount to be paid</u>
June 30, 2006	\$374,400
June 30, 2007	389,376

15. CONTINGENCIES

A. Grants

The School received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the School. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2004.

B. State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding decision is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The School is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

C. Ohio Department of Education Enrollment Review

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the School. These reviews are conducted to ensure the Community School is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The review for fiscal year 2005 resulted in a receivable of \$3,207.

**HORIZON SCIENCE ACADEMY OF COLUMBUS
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

15. CONTINGENCIES (continued)

D. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. On April 21, 2003 the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard for oral argument on November 18th, 2003. On August 24, 2004, the Court of Appeals rendered a decision that community schools are part of the State Public Educational System and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the court of appeals for review on February 16, 2005. Oral arguments occurred November 29, 2005.

The effect of this suit, if any, on the School is not presently determinable.

16. SPONSORSHIP AGREEMENT

On July 1, 2004, Lucas County Educational Service Center assumed responsibility for sponsorship of the School. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

17. MANAGEMENT COMPANY AGREEMENT

In October 2004, the School contracted with Concepts Schools, Inc. to serve as the School's management company. Total payments due to Concept Schools amounted to \$191,642 which does not represent 20% of the gross revenues of the School.

18. SUBSEQUENT EVENT

In October 2005, the Board of Trustees also started governing the Horizon Science Academy of Cincinnati and the Horizon Science Academy of Dayton.

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Auditor of State Betty Montgomery

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

Horizon Science Academy of Columbus
Franklin County
1070 Morse Road
Columbus, Ohio 43219

To the Board of Trustees:

We have audited the basic financial statements of Horizon Science Academy of Columbus, Franklin County, Ohio (the School) as of and for the year ended June 30, 2005, and have issued our report thereon dated August 8, 2006. 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 to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School's management dated August 8, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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 instances of noncompliance or other matters that we must report under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2005-001 through 2005-006. In a separate letter to the School's management dated August 8, 2006, we reported other matters related to noncompliance we deemed immaterial.

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Horizon Science Academy of Columbus
Franklin County
Independent Accountants' Report on Internal Control Over Financial Reporting and
On Compliance and Other Matters Required by *Governmental Auditing Standards*
Page 2

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

August 8, 2006

**HORIZON SCIENCE ACADEMY OF COLUMBUS
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2005**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2005-001

The School borrowed \$250,000 from Horizon Science Academy of Cleveland during fiscal year 2005. Based on the loan agreement, payments were to be remitted from November 2004 to June 2005 totaling \$255,508.56. The School paid \$255,612.99 resulting in an overpayment of \$104.43.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended would have been issued against the Horizon Science Academy of Cleveland in the amount of \$104.43 and in favor of the Horizon Science Academy of Columbus.

The finding was repaid by Horizon Science Academy of Cleveland on March 16, 2006 and deposited into the School Treasury on March 20, 2006.

FINDING NUMBER 2005-002

During fiscal year 2005, the School issued payments to Skelton, McQuiston, Gounaris & Henry, Attorneys at Law, for the purpose of assisting Ali Cifci, who was not an employee of the School, with legal fees associated with the Citizenship and Immigration Service process, in the amounts of \$600. Ali Cifci was a potential teacher who was never hired. There is no authority that allowed these payments to be made, nor does the nature of the expense relate to the School's normal activities and operations.

These payments were authorized by David Disli, Director, and issued by Mustafa Gulkesen, Treasurer.

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies illegally expended would have been issued against Ali Cifci, Mustafa Gulkesen, Treasurer, Ohio Farmer's Insurance Company, Mr. Gulkesen's bonding company, and David Disli, Director, jointly and severally in the amount of \$600.

The finding was repaid by Concepts Schools on September 1, 2006 and deposited into the School Treasury on September 6, 2006.

FINDING NUMBER 2005-003

During fiscal year 2005, the School issued payments to the Citizenship and Immigration Service and to Skelton, McQuiston, Gounaris & Henry, Attorneys at Law, for the purpose of assisting Fatma Karan and the dependent children of Harun Karan, a teacher at the School, with the cost of immigration applications and associated legal fees in the amounts of \$195 and \$600, respectively. Fatma Karan, the spouse of Harun Karan, was not an employee of the School. There is no authority that allowed these payments to be made, nor does the nature of the expense relate to the School's normal activities and operations.

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies illegally expended would have been issued against Fatma Karan and Harun Karan, jointly and severally in the amount of \$795.

The finding was repaid by Harun Karan on September 5, 2006 and deposited into the School Treasury on September 6, 2006.

**HORIZON SCIENCE ACADEMY OF COLUMBUS
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2005
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2005-004

During fiscal year 2005, the School issued payments to the Citizenship and Immigration Service and to Skelton, McQuiston, Gounaris & Henry, Attorneys at Law, for the purpose of assisting Seyda Kara, who was not an employee of the School, with the cost of immigration applications and associated legal fees in the amounts of \$195 and \$200, respectively. Seyda Kara was the spouse of Aydin Kara, an employee of the School. There is no authority that allowed these payments to be made, nor does the nature of the expense relate to the School's normal activities and operations.

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies illegally expended would have been issued against Seyda Kara in the amount of \$395.

The finding was repaid by Aydin Kara on September 1, 2006 and deposited into the School's Treasury on September 5, 2006.

FINDING NUMBER 2005-005

During fiscal year 2005, the School issued payments to the Citizenship and Immigration Service and to Skelton, McQuiston, Gounaris & Henry, Attorneys at Law, for the purpose of assisting Bedia Akyurek and the dependent child of Huseyin Akyurek, a teacher at the School, with the cost of immigration applications and associated legal fees in the amounts of \$195 and \$400, respectively. Bedia Akyurek, the spouse of Huseyin Akyurek, was not an employee of the School. There is no authority that allowed these payments to be made, nor does the nature of the expense relate to the School's normal activities and operations.

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies illegally expended would have been issued against Bedia Akyurek and Huseyin Akyurek, jointly and severally in the amount of \$595.

The finding was repaid by Huseyin Akyurek on September 5, 2006 and deposited into the School's Treasury on September 6, 2006.

FINDING NUMBER 2005-006

During fiscal year 2005, the School issued payments to the Citizenship and Immigration Service and to Skelton, McQuiston, Gounaris & Henry, Attorneys at Law, for the purpose of assisting Sumeyra Namli, who was not an employee of the school, with the cost of immigration applications and associated legal fees, in the amounts of \$195 and \$200, respectively. Sumeyra Namli was the spouse of Mustafa Namli, a teacher at the School. There is no authority that allowed these payments to be made, nor does the nature of the expense relate to the School's normal activities and operations.

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies illegally expended would have been issued against Sumeyra Namli in the amount of \$395.

The finding was repaid by Mustafa Namli on September 1, 2006, and deposited into the School's Treasury on September 5, 2006.



**Auditor of State
Betty Montgomery**

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HORIZON SCIENCE ACADEMY OF COLUMBUS

FRANKLIN 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
OCTOBER 12, 2006**