HORIZON SCIENCE ACADEMY-DAYTON
MONTGOMERY COUNTY

INITIAL AUDIT

FOR THE PERIOD MAY 1, 2005 THROUGH JUNE 30, 2006

Mary Taylor, CPA
Auditor of State

HORIZON SCIENCE ACADEMY-DAYTON
MONTGOMERY COUNTY

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INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Trustees:

We have audited the accompanying financial statements of the business-type activities of Horizon Science Academy-Dayton, Montgomery County, (the Academy), as of and for the period May 1, 2005 through June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Horizon Science Academy-Dayton, Montgomery County, as of June 30, 2006, and the changes in its financial position and its cash flows for the period then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements indicate the Academy has incurred a working capital deficiency of $238,989, an operating loss of $564,364, and an accumulated deficit of $438,476. Management's plans regarding these matters are described in Note 19.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 27, 2007, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

One First National Plaza / 130 W. Second St. / Suite 2040 / Dayton, OH 45402
Telephone: (937) 285-6677 (800) 443-9274 Fax: (937) 285-6688
www.auditor.state.oh.us

Management 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

July 27, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD MAY 1, 2005 THROUGH JUNE 30, 2006
(UNAUDITED)

The discussion and analysis of Horizon Science Academy-Dayton's, (the Academy) financial performance provides an overall review of the financial activities for the fiscal period ended June 30, 2006. Readers should also review the financial statements and notes to enhance their understanding of the Academy's financial performance. The Academy received its charter from the Lucas County Education Service Center (the Sponsor) for a period of five years commencing November 11, 2004. However, we are only presenting data for the period May 1, 2005 through June 30, 2006.

Financial Highlights

Key financial highlights for period May 1, 2005 through June 30, 2006 are as follows:

- Total net assets were ($438,476) as of June 30, 2006.
- Total revenue was $1,051,820 during the period.
- Similarly, total operating expenses were $1,441,267 during the period.
- Current liabilities were $357,156 and current assets were $118,167 as of June 30, 2006.

Table 1 provides a summary of the Academy's net assets as of June 30, 2006. Since this is the first full period of operations for the Academy, comparison with prior period is not available. A comparative analysis will be provided in future years when prior year information is available.

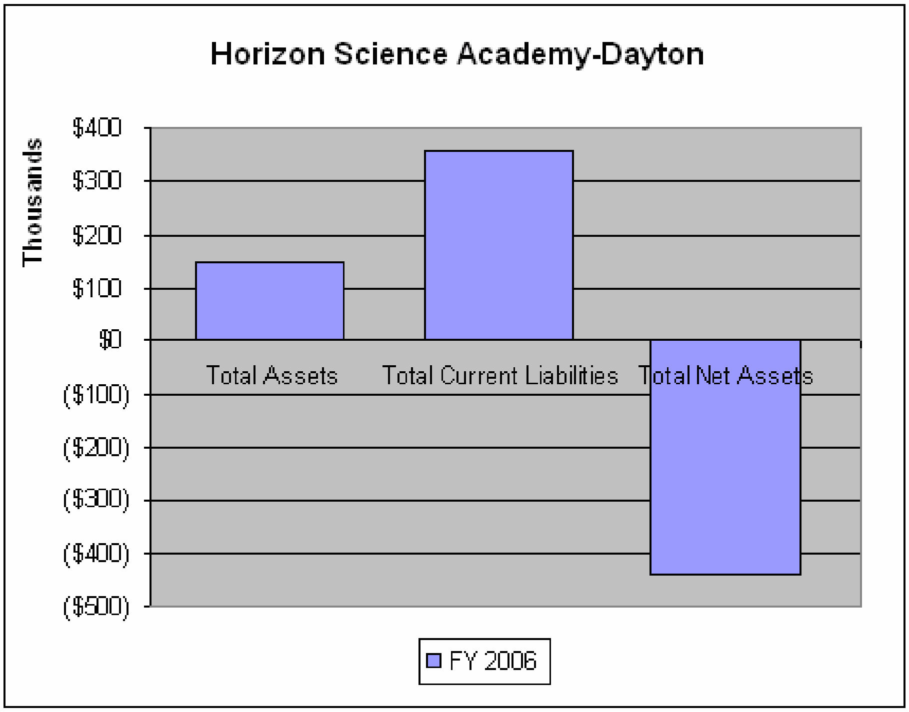
Table 1
Net Assets

	2006
Assets:	
Cash and Other Current Assets	$118,167
Capital Assets, Net	32,903
Total Assets	151,070
Liabilities:	
Current Liabilities	357,156
Non-current Liabilities	232,390
Total Liabilities	589,546
Net Assets:	
Invested in Capital Assets, Net of Related Debt	16,332
Unrestricted	(454,808)
Total Net Assets	($438,476)

Using this Financial Report

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

The *Statement of Net Assets/Accumulated Deficit* and *Statement of Revenues, Expenses, and Change in Accumulated Deficit* reflect how the Academy did financially during the period May 1, 2005 through June 30, 2006. 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 period revenues and expenses regardless of when cash is received or paid.



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

The Academy uses enterprise presentation for all of its activities.

Cash and other current assets were $118,167 at June 30, 2006. This amount is made up of $87,254 in federal grants and a foundation adjustment of $19,538 to be received by the Academy in fiscal year 2007. The remaining amount of $11,375 represents the cash balance that the Academy has on hand.

In addition, Capital Assets, Net of Accumulated Depreciation, were $32,903 at June 30, 2006. This is due to the purchase of computer and related equipment and other office equipment/furniture less depreciation on all assets. Also, the Academy entered into a five year capital lease with Dollar Leasing Corp. for a Toshiba Printer.

Liabilities were $589,546 and were made up of loans and a line of credit payable that were entered into for the purpose of paying the Academy's operating expenses and to facilitate cash flow on a short term basis, a payable to the State of Ohio for an overpayment of foundation money received during the period and various other payables of outstanding operating expenses that were incurred by the Academy during the period.

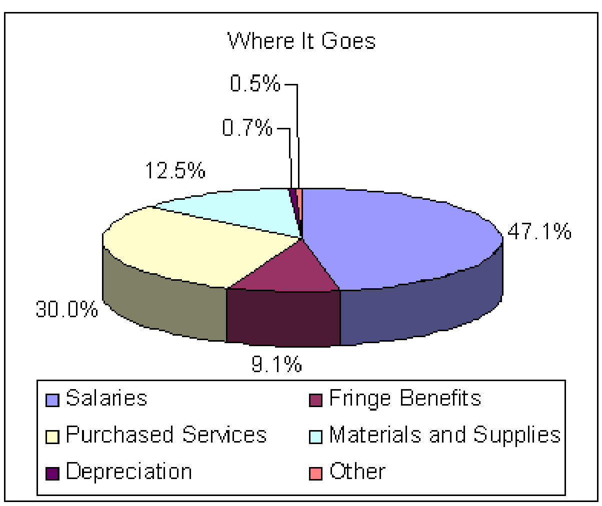
Table 2 shows Changes in Net Assets for the period May 1, 2005 through June 30, 2006. Since this is the first full period of operations for the Academy, comparison with prior period is not available. A comparative analysis will be provided in future years when prior year information is available.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD MAY 1, 2005 THROUGH JUNE 30, 2006
(UNAUDITED)
(Continued)**

**Table 2
Change in Accumulated Deficit**

	2006
Operating Revenues	
Foundation	$866,279
Classroom Fees	5,564
Food Service	3,032
Other Operating	2,028
Non-Operating Revenues	
Non-Operating Grants	173,880
Gifts and Contributions	1,037
Total Revenues	1,051,820
Operating Expenses	
Salaries	678,495
Fringe Benefits	131,728
Purchased Services	432,423
Materials and Supplies	180,798
Depreciation	9,967
Other	7,856
Non-Operating Expenses	
Interest and Fiscal Charges	1,447
Total Expenses	1,442,714
Total Decrease in Net Assets	($390,894)

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 82% of revenues for the Academy during the period May 1, 2005 through June 30, 2006.



Budgeting Highlights

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

Capital Assets

As of June 30, 2006, the Academy had $32,903 net of depreciation invested in capital assets. The notes to the basic financial statements provide additional information about the Academy's capital assets.

Debt

At June 30, 2006, the Academy had $274,711 in notes and a line of credit payable to various entities. Of this amount, $55,211 is due within one year and the remaining amount of $219,500 is due in more than one year. The Academy is not required to pay any interest on the notes payable; however, the Academy does owe $2,091 in interest on the line of credit from National City Bank.

The Academy also has a copier capital lease in which $16,571 is still due. $3,681 is due within one year with the remaining amount of $12,890 due in more than one year.

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

Current Financial Related Activities

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

While the Academy had a loss for the period ended June 30, 2006, forecasts for growth are good. The Academy's enrollment is up to 190 students for fiscal year 2007 and the Academy is still eligible for federal subgrant funds.

Contacting the Academy's Financial Management

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

HORIZON SCIENCE ACADEMY-DAYTON
MONTGOMERY COUNTY

STATEMENT OF NET ASSETS/ACCUMULATED DEFICIT
AS OF JUNE 30, 2006

Assets	
Current Assets	
Equity in Pooled Cash and Cash Equivalents	$11,375
Intergovernmental Receivable	106,792
Total Current Assets	118,167
Non-Current Assets	
Capital Assets (Net of Accumulated Depreciation)	32,903
Total Assets	151,070
Liabilities	
Current Liabilities	
Accounts Payable	94,901
Accrued Wages and Benefits Payable	53,703
State Funding Payable	118,582
Intergovernmental Payable	31,078
Long-Term Debt and Other Obligations - Current Portion	58,892
Total Current Liabilities	357,156
Noncurrent Liabilities	
Long-Term Debt and Other Obligations	232,390
Total Liabilities	589,546
Net Assets/Accumulated Deficit	
Invested in Capital Assets, Net of Related Debt	16,332
Unrestricted	(454,808)
Total Net Assets/Accumulated Deficit	($438,476)

See accompanying notes to the basic financial statements.

HORIZON SCIENCE ACADEMY-DAYTON
MONTGOMERY COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN ACCUMULATED DEFICIT
FOR THE PERIOD MAY 1, 2005 THROUGH JUNE 30, 2006

Operating Revenues	
State Foundation	$866,279
Classroom Fees	5,564
Food Service	3,032
Other Operating Revenues	2,028
Total Operating Revenues	876,903
Operating Expenses	
Salaries	678,495
Fringe Benefits	131,728
Purchased Services	432,423
Materials and Supplies	180,798
Depreciation	9,967
Other	7,856
Total Operating Expenses	1,441,267
Operating Loss	(564,364)
Non-Operating Revenues	
Grants - Federal	170,880
Grants - State	3,000
Gifts and Contributions	1,037
Interest and Fiscal Charges	(1,447)
Total Non-Operating Revenues	173,470
Change in Net Assets	(390,894)
Net Assets Accumulated Deficit Beginning of Period	(47,582)
Net Assets Accumulated Deficit End of Period	($438,476)

See accompanying notes to the basic financial statements.

HORIZON SCIENCE ACADEMY-DAYTON
MONTGOMERY COUNTY

STATEMENT OF CASH FLOWS
FOR THE PERIOD MAY 1, 2005 THROUGH JUNE 30, 2006

Increase (Decrease) in Cash and Cash Equivalents:	
Cash Flows from Operating Activities:	
Cash Received from State Foundation	$1,015,014
Cash Received from Other Operating Activities	5,564
Cash Payments for Employee Services and Benefits	(752,130)
Cash Payments for Goods and Services	(554,905)
Other Cash Deposits	5,090
Net Cash Used for Operating Activities	(281,367)
Cash Flows from Noncapital Financing Activities:	
Federal Grants	83,626
State Grants	3,000
Cash Received from Contributions and Donations	1,037
Proceeds of Loan	274,878
Loan Principal Payments	(41,127)
Net Cash Provided by Noncapital Financing Activities	321,414
Cash Flows from Capital and Related Financing Activities	
Acquisition of Capital Asset	(22,889)
Capital Lease Principal Payments	(3,409)
Capital Lease Interest Payments	(1,448)
Net Cash Used for Capital and Related Financing Activities	(27,746)
Net Decrease in Cash and Cash Equivalents	12,301
Cash and Cash Equivalents Beginning of Period	(926)
Cash and Cash Equivalents End of Period	11,375
Reconciliation of Operating Loss to Net Cash Used In Operating Activities:	
Operating Loss	(564,364)
Adjustments to Reconcile Operating Loss to Net Cash Used In Operating Activities:	
Depreciation	9,967
Changes in Assets and Liabilities:	
Increase in Intergovernmental Receivable	(19,538)
Increase in Accounts Payable	94,146
Increase in Accrued Wages and Benefits	53,703
Decrease In State Funding Payable	118,582
Increase in Intergovernmental Payable	26,137
Net Cash Used for Operating Activities	($281,367)

See accompanying notes to the basic financial statements.

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1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

Horizon Science Academy-Dayton, (the Academy), is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to address the needs of students in grades nine through twelve. The Academy, which is part of the State's education program, is independent of any School and is nonsectarian in its programs, admission policies, employment practices, and all other operations.

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

The Academy was approved for operation under contract with the Lucas County Education Service Center (the Sponsor) for a period of five years commencing November 11, 2004 and the Board of Trustees approved January 25, 2005 as the school start date. For the period January 25, 2005 through April 30, 2005, the Academy had receipts of $41,143, expenditures of $42,069 resulting in a negative ending cash balance of $926. Additionally, as of April 30, 2005, assets totaled ($926), and liabilities totaled $46,656, resulting in net assets of ($47,582).

The Academy operates under the direction of a self-appointed five-member Board of Trustees. The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board of Trustees controls the Academy's facility, which is currently staffed by 27 full and part time personnel who provide services to up to 126 students during the period.

The Board of Trustees has entered into a management contract with Concept Schools Inc., a not-for-profit corporation, for management services and operation of its school. In exchange for its services, Concept Schools receives ten percent of state funds received by the Academy, see Note 15. The Academy is associated with Horizon Science Academy Cincinnati which is defined as a related organization. This organization is presented in Note 21 to the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis Of Presentation

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting

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

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

C. Budgetary Process

Unlike traditional public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Section 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor requires a spending plan for each year of the contract; however, the budget does not have to follow the provisions of Ohio Rev. Code Section 5705, except for section 5705.391 as it relates to five-year forecasts. For fiscal period 2006 the Academy did not prepare or file the required five-year projections.

D. Cash

All monies received by the Academy are maintained in a demand deposit account. The Academy did not have any investments during the period ended June 30, 2006.

E. Prepayments

Payments made to vendors that will benefit periods beyond June 30, 2006, 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 period. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of five thousand dollars ($5,000). The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Improvements are capitalized. The Academy does not capitalize interest.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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
Computers and Equipment	3 - 10 years
Leasehold Improvements	5 - 10 years (life of lease)

G. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors, or contracts. The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. For the period ended 2006 the Academy has no restricted net assets.

H. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program, Special Education Program, and the Federal Charter School Subgrant 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 Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

Amounts awarded under these programs for the period ended June 30, 2006 totaled $1,040,159.

I. Accrued Liabilities and Long-Term Obligations

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

J. Operating Revenues and Expenses

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Compensated Absences

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

L. 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.

M. Change in Accounting Principles

For the period ended June 30, 2006, the Academy has implemented *GASB Statement No. 42, "Accounting* and *Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Statement No. 47, "Accounting for Termination Benefits."*

GASB Statement No. 42 establishes accounting and financial reporting standards for the impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. The implementation of this statement had no effect on the Academy's financial statements for the period ended June 30, 2006.

GASB Statement No. 46 clarifies how legal enforceability should be applied for determining restricted net assets. The implementation of this new statement had no effect on the Academy's financial statements for the period ended June 30, 2006.

GASB Statement No. 47 establishes accounting and financial standards for termination benefits. This statement clarifies and established reporting requirements for those benefits provided by employer to employees as an incentive or settlement for voluntary early termination or as a consequence of the involuntary early termination of services. The implementation of this statement had no effect on the Academy's financial statements for the period ended June 30, 2006.

3. DEPOSITS

At June 30, 2006, the carrying amount of the Academy's deposits was $11,375. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006 the bank balance was $41,926. 100% of the Academy's bank balance was covered by Federal Deposit Insurance Corporation.

The Academy had no investments at June 30, 2006 or during the period.

Custodial credit risk is the risk that, in the event of bank failure, the Academy's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Academy.

3. DEPOSITS (Continued)

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

4. CAPITAL ASSETS

Capital asset activity for the period ended June 30, 2006, was as follows:

	Balance 5/1/05	Additions	Deletions	Ending 6/30/06
Computers and Equipment	$0	$42,870	$0	$42,870
Total Fixed Assets	0	42,870	0	42,870
Less: Accumulated Depreciation	0	(9,967)	0	(9,967)
Net Fixed Assets	$0	$32,903	$0	$32,903

5. PURCHASED SERVICES

Purchased service expenses during the period ended 2006 were as follows:

Type	Amount
Professional Services	$144,182
Rent and Property Services	140,481
Travel	5,443
Advertising and Communications	47,761
Utilities	29,411
Contract Labor & Food Services	59,330
Pupil Transportation	2,996
Other Purchased Services	2,819
Total	$432,423

6. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (614) 222-5853 or by visiting the SERS website at ohsers.org.

6. DEFINED BENEFIT PENSION PLANS (Continued)

Plan members are required to contribute 10% of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for the fiscal year 2006, 10.58% of annual covered salary was the portion to fund pension obligations. For fiscal year 2005, 10.57% 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 Academy's required contributions for pension obligations to SERS for the period ended June 30, 2006 was $8,462; 79% has been contributed for the period.

B. State Teachers Retirement System

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

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

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

6. DEFINED BENEFIT PENSION PLANS (Continued)

For the fiscal year ended June 30, 2006, plan members were required to contribute 10% of their annual covered salaries. For fiscal period 2006 the Academy was required to contribute 14%; 13% was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13%. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations for the period ended June 30, 2006 was $92,117; 80% has been contributed for the period.

7. POST-EMPLOYMENT BENEFITS

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

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. STRS Ohio pays health care benefits from the Health Care Reserve fund. For the Academy, this amount equaled $7,086 for the period.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, (the latest information available) the balance in the Fund was $3.3 billion. For the fiscal year ended June 30, 2005, net health care costs paid by STRS Ohio were $254,780,000 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 health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of .01 percent from fiscal year 2005. 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 2006, the minimum pay was established at $35,800. For the Academy, the amount contributed to fund health care benefits, including the surcharge, during the period ended June 30, 2006 equaled $3,591.

7. POSTEMPLOYMENT BENEFITS (Continued)

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available), were $178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of $267.5 million. SERS has approximately 58,123 participants currently receiving health care benefits.

8. RISK MANAGEMENT

A. Property and Liability

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

B. Workers Compensation

The Academy pays the State Workers Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State. The Academy did not owe for this premium as of June 30, 2006.

9. EMPLOYEE MEDICAL AND DENTAL BENEFITS

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

10. LONG-TERM DEBT AND OTHER OBLIGATIONS

Long-term liability activity for the period May 1, 2005 through June 30, 2006, was as follows:

	Balance 5/1/2005	Increase	Decrease	Balance 6/30/2006	Due Within One Year
Vedat Akgun Note Payable - 0.00 percent	$21,960		$20,000	$ 1,960	$ 1,960
Breeze, Inc. Note Payable - 0.00 percent		$106,000		106,000	
Concept Schools Note Payable - 0.00 percent	19,000	113,500	19,000	113,500	
Nation City Bank Line of Credit - Prime + 0.50 percent		55,378	2,127	53,251	53,251
Copier Capital Lease - 7.73 Percent		19,980	3,409	16,571	3,681
Total Long-Term Debt and Other Obligations	$40,960	$294,858	$44,536	$291,282	$58,892

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

Vedat Akgun Note Payable

Prior to May 1, 2005, the Academy entered into an interest free note with Mr. Vedat Akgun, an original founder of the Academy, in the amount of $21,960 for the purpose of providing startup funds until the Academy could receive state funding. The note is to be paid in full by June 30, 2005. As of the balance sheet date, the Academy still owed $1,960 to Mr. Akgun.

Breeze, Inc. Note Payable

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

Concept Schools Note Payable

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

National City Bank Line of Credit

During the period, the Academy received lines of credit from National City Bank in the amount of $55,378 for the purpose of paying the Academy's operating expenses and to facilitate cash flow on a short-term basis. The interest rate on the line of credit is prime plus 0.50 percent. Minimum monthly payments are to be made based on a monthly activity statement from National City Bank.

Copier Capital Lease

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

Annual debt service requirements to maturity are as follows:

Vedat Akgun Note Payable

Fiscal Year Ended June 30	Principal	Interest	Total
2007	$1,960		$1,960
Total	$1,960		$1,960

Breeze, Inc. Note Payable

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

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

Concept Schools Note Payable

Fiscal Year Ended June 30	Principal	Interest	Total
2009	$113,500		$113,500
Total	$113,500		$113,500

National City Bank Line of Credit

Fiscal Year Ended June 30	Principal	Interest	Total
2007	$53,251	$2,091	55,342
Total	$53,251	$2,091	$55,342

11. CAPITAL LEASES

During the period, the Academy entered into a capitalized lease for the purchase of a Toshiba E810 copier. This lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, “Accounting for Leases,” which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee.

The copier acquired by the lease has been capitalized in the statement of net assets/accumulated deficit in the amount of $19,980, which is equal to the present value of the minimum lease payments at the time of acquisition. A corresponding liability was split between long-term liabilities due within one year and long-term liabilities due in more than one year on the statement of net assets/accumulated deficit. Principal payments during the period totaled $3,409.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2006.

Fiscal Year Ended June 30	
2007	$4,856
2008	4,857
2009	4,856
2010	4,857
Total	19,426
Less: Amount Representing Interest	2,855
Present Value of Net Minimum Lease Payments	$16,571

12. OPERATING LEASES

The Academy entered into a rental agreement with Breeze, Inc. during the period for school facilities on Odlin Ave for a three year period. The terms of the agreement were $300,000, payable in equal monthly installments of $25,000 due the first day of each month. For each successive year the annual rent shall increase by four percent (4%) over the rent of the preceding year. At the end of the period, the Academy still owed Breeze, Inc. $187,500 for the first year’s rent. Breeze, Inc. forgave the remaining amount of rent due. See Note 20.

13. CONTINGENCIES

A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2006.

B. Ohio Department of Education Enrollment Review

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the Academy. These reviews are conducted to ensure the Community School is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. ODE's review for school year 2005 determined that the Academy owed ODE $168,272 of which $49,690 was paid back to ODE during the period. The remaining amount of $118,582 has been placed on the financial statements as State Funding Payable. ODE's review of school year 2006 determined that ODE owed the Academy $19,538. This amount has been included as part of Intergovernmental Receivables on the financial statements.

C. Litigation

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

14. SPONSORSHIP AGREEMENT

On November 11, 2004, Lucas County Educational Service Center assumed responsibility for sponsorship of the Academy. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

15. MANAGEMENT COMPANY AGREEMENT

The Academy entered into a one-year contract, effective January 1, 2005, with Concept Schools for educational services and operation of the Academy. This contract renewed for an additional one year on January 1, 2006. In exchange for its services, Concept Schools receives 10% of state funds received by the Academy. During the period, Concept Schools did not charge the Academy for all its management fees to reduce the financial burden on the Academy in the early years of operation. The amount paid to Concept Schools for the period, for management fees, totaled $78,346.

15. MANAGEMENT COMPANY AGREEMENT (Continued)

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

A. Human Resources;

B. Professional Development for Academy Board;

C. Professional Development for Academy Administrators and Teachers;

D. Accreditation and Recognition (including contract renewal);

E. Strategic Planning;

F. Grant Writing;

G. After School Program Design;

H. Technology Support;

I. Database Management (student related);

J. Facility Management;

K. Marketing Materials;

L. Curriculum Development;

M. Public Relation Services, and;

N. Purchasing Services

The Table below shows the expenses for which the Academy has reimbursed Concept Schools during the period ended June 30, 2006.

Advertising	$2,552
Management Fees	78,346
Professional Development	1,050
Professional / Legal Services	10,975
Supplies and Materials	80,598
Total	$173,521

16. JOINTLY GOVERNED ORGANIZATON

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

17. RECEIVABLES

Receivables at June 30, 2006 consisted of intergovernmental receivables in the amount of $106,762. All receivables are considered collectible in full and are expected to be received within one year. A summary of intergovernmental receivables follows:

Description	Amount
National School Lunch	$ 5,356
Title I Grant	80,054
Title II-A Teacher Quality Grant	1,558
Title II-D Technology Grant	20
Title V Innovative Programs Grant	40
Title VI-B IDEA Grant	226
Ohio Department of Education	19,538
Total	$106,792

18. RELATED PARTIES

The Board members for the Academy are also Board members for other Horizon Science Academy Schools that are managed by the same management company, Concept Schools. Members of the Board of Trustees are not compensated.

The Academy entered into a rental agreement with Breeze, Inc. in fiscal period 2006 for school facilities on Odlin Ave for a three year period (See Note 12). Breeze, Inc. is a property management company owned by Mr. Vedat Akgun, an employee of Concept Schools, Inc., the Academy's management company, and a member/president of the Academy's Board of Trustees from April 2005 to October 2005. Total rent payments for the period ended June 30, 2006 to Breeze, Inc. were $87,500.

Vedat Akgun Note Payable

Prior to May 1, 2005, the Academy entered into an interest free note with Mr. Vedat Akgun, an original founder of the Academy, in the amount of $21,960 for the purpose of providing startup funds until the Academy could receive state funding. The note was to be paid in full by June 30, 2005. As of the balance sheet date, the Academy still owes $1,960 to Mr. Akgun.

Breeze, Inc. Note Payable

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

Concept Schools Note Payable

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

19. MANAGEMENT'S PLANS REGARDING CONTINUED EXISTENCE

As shown in the accompanying financial statements, the Academy has an accumulated deficit of $438,476 as of June 30, 2006, which is primarily due to $291,282 in outstanding debt, $118,582 due to the State for 2005 foundation overpayments, and $179,682 in payables for outstanding purchases for goods and services received during the period that have not been paid for and for wages and benefits owed to employees and various agencies for work performed during the period.

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

20. SUBSEQUENT EVENTS

The Board approved the receipt of a $20,000 loan from Horizon Science Academy-Cleveland on December 16, 2006. The Academy is to repay the loan in two equal installments of $10,000 to be paid in January and February 2007.

In a letter dated November 10, 2006 Breeze, Inc. forgave the remaining amount of rent due $187,500, from the Academy for fiscal period 2006.

21. RELATED ORGANIZATION

Horizon Science Academy Cincinnati is a community school in the State of Ohio, operated under the direction of the same Board of Trustees that operate the Academy. To obtain financial information, write to Horizon Science Academy Cincinnati, at 1055 Laidlaw Avenue, Cincinnati, Ohio 45237.

22. NONCOMPLIANCE

The Academy did not comply with requirements regarding the design and implementation of controls for financial reporting and payment to its management company.

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

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

To the Board of Trustees:

We have audited the financial statements of the business-type activities of Horizon Science Academy-Dayton, Montgomery County, (the Academy), as of and for the period May 1, 2005 through June 30, 2006, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated July 27, 2007, wherein we noted the Academy has incurred a working capital deficiency of $238,989, an operating loss of $564,364, and an accumulated deficit of $438,476. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Academy's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2006-007 and 2006-008.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable conditions 2006-007 and 2006-008 listed above to be material weaknesses. In a separate letter to the Academy's management dated July 27, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Material Noncompliance

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed 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 2006-001 through 2006-006. In a separate letter to the Academy's management dated July 27, 2007, we reported other matters related to noncompliance we deemed immaterial.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

July 27, 2007

SCHEDULE OF FINDINGS
JUNE 30, 2006

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

FINDING NUMBER 2006-001

Finding for Recovery - Repaid

State ex rel. McClure v. Hagerman, 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** Expenditure of Public Funds/Proper "Public Purpose" states that governmental entities may not make expenditures of public monies unless they are for a valid public purpose. There are two criteria that demonstrate whether an expenditure is for a public purpose. First, the expenditure is required for the general good of all inhabitants and second, the primary objective of the expenditure is to further a public purpose, even if an incidental private end is advanced.

During the period ended June 30, 2006, Horizon Science Academy-Dayton issued the following payments to Concept Schools, Inc. (the Academy's Management Company), to reimburse the management company for expenditures made to the United States Citizenship and Immigration Services, the United States Department of Homeland Security, Robert A. Perkins & Associates, Karen D. Bradley, and Ant Travel for the purpose of assisting with the cost of Citizenship and Immigration applications and associated legal fees and travel in the amounts of:

Kazim Eldes - Concept Schools, Inc. Invoice #1534	
Dependent Application Fee	$ 195.00
Omer Yaliniz - Concept Schools, Inc. Invoice #1534	
Legal Fees	600.00
Amanmyrat Gurdov - Concept Schools, Inc. Invoice #1614	
Air Travel (Gurdov and his family)	1,597.75
Total Finding for Recovery	$2,392.75

There is no authority that allowed these payments to be made, nor does the nature of the expense relate to the Academy's normal activities and operations.

Ohio Revised Code Section 3314.01(B) states in part that a community school is a public school…and is part of the state's program of education. There is no demonstrable connection between these payments and the state's program of education.

In accordance with the foregoing facts and pursuant to **Ohio Revised Code Section 117.28**, a finding for recovery for public monies illegally expended is hereby issued against Concept Schools, Inc., in the amount of $2,392.75 and in favor of Horizon Science Academy – Dayton. The Academy received a check from Concepts School for $2,392.75 on November 7, 2007 as repayment.

Officials' Response: This finding should be removed or modified to the extent that any expenses were attributable to the immigration of an employee's dependents.

FINDING NUMBER 2006-002

Finding for Recovery - Repaid

The Board approved employee handbook states that each full time employee will be allowed up to eight days per year of paid sick and personal leave. Full time employees who do not use all of their sick and personal days will receive $100.00 for each unused day. Days not used during the year will not be carried over to the next school year.

Leave payouts were calculated by the business manager and were paid to the employees with their July 28, 2006 paycheck. When the leave payout was recalculated during testing, it was noted that Mr. Chad Hardin, a teacher for the Academy, was paid $562.50, however based on his leave balance, Mr. Hardin should only have received $250. Mr. Harding received $312.50 more than he should have. Not all of Mr. Hardin's leave used was accounted for in the original calculation which resulted in the overpayment.

In accordance with the forgoing facts, and according to **Ohio Revised Code Section 117.28**, a Finding for Recovery for funds illegally expended is hereby issued against Chad Hardin, Teacher, and Omer Yaliniz, Business Manager, jointly and severally, in the amount of three hundred and twelve dollars and fifty cents ($312.50), in favor of Horizon Science Academy - Dayton.

The Academy should institute procedures to provide that all employees are paid in accordance with the Board approved policy and in right amounts. Additionally, the payroll should be periodically reviewed by someone independent of the payroll process. $512.50 was deposited into the Academy's account on November 16, 2007 to repay this finding, as well as finding #003 below.

Officials' Response: The Academy's Director and Treasurer will conduct the periodic payroll reviews recommended by the Auditor of State.

FINDING NUMBER 2006-003

Finding for Recovery - Repaid

The Board approved employee handbook states that each full time employee will be allowed up to eight days per year of paid sick and personal leave. Full time employees who do not use all of their sick and personal days will receive $100.00 for each unused day. Days not used during the year will not be carried over to the next school year.

Leave payouts were calculated by the business manager and were paid to the employees with their July 28, 2006 paycheck. When the leave payout was recalculated during testing, it was noted that Ms. Takila Seege, a teacher for the Academy, was paid $600, however based on her leave balance, Ms. Seege should only have received $400. Ms. Seege received $200 more than she should have. Not all of Ms. Seege's leave used was accounted for in the original calculation which resulted in the overpayment.

In accordance with the forgoing facts, and according to **Ohio Revised Code Section 117.28**, a Finding for Recovery for funds illegally expended is hereby issued against Takila Seege, Teacher and Omer Yaliniz, Business Manager, jointly and severally, in the amount of two hundred dollars ($200.00), in favor of Horizon Science Academy - Dayton.

The Academy should institute procedures to provide that all employees are paid in accordance with the Board approved policy and in right amounts. Additionally, the payroll should be periodically reviewed by someone independent of the payroll process. $512.50 was deposited into the Academy's account on November 16, 2007 to repay this finding, as well as finding #002 above.

FINDING NUMBER 2006-003
(Continued)

Officials' Response: The Academy's Director and Treasurer will conduct the periodic payroll reviews recommended by the Auditor of State

FINDING NUMBER 2006-004

Noncompliance Citation

Ohio Revised Code Section 5705.391(B) requires that schools must prepare five-year projections of revenues and expenditures. The projection must be submitted to the Ohio Department of Education (ODE) no later than October 31 of any fiscal year.

During the period ended June 30, 2006, the Academy did not prepare or file the required five-year projections with ODE. The last five-year projections were approved by the board during November 2004.

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

Officials' Response: The governing authority of Horizon Science Academy – Dayton approves all five year projections. Copies are submitted to the Ohio Department of Education and the Academy's Sponsor, the Lucas County Educational Service Center, by the deadline required by law.

FINDING NUMBER 2006-005

Noncompliance Citation

Ohio Revised Code Section 3314.03 (B)(5) and AOS Bulletin 2000-005 require that the management of each community school be responsible for the design and implementation of an internal control process that provides reasonable assurance of the integrity of its financial reporting, the safeguarding of assets, the efficiency and effectiveness of its operations, and its compliance with applicable laws, regulations and contracts.

The Academy's Financial Report for 2006 contained errors which resulted in numerous reclassifications and adjustments to correctly report the financial activity during and at the end of the period as follows.

Statement of Net Assets/Accumulated Deficit:

- Capital Assets were overstated $32,526;
- Accrued Wages were overstated $43,336;
- Capital Lease Payable was overstated by $2,709;
- Due Within One Year was understated $56,932;
- Due In More Than One Year was understated $12,280;
- Invested In Capital Assets, Net of Related Debt was overstated $49,097; and
- Unrestricted (Deficit) is overstated $62,617.

**FINDING NUMBER 2006-005
(Continued)**

Statement of Revenues, Expenses and Changes in Accumulated Deficit:

- Salaries were overstated $35,928;
- Fringe Benefits were overstated $7,408;
- Purchased Services were understated $1,214;
- Materials and Supplies were understated $37,984;
- Depreciation was overstated $5,458; and
- Interest and Fiscal Charges were overstated by $3,923.

Statement of Cash Flows:

- Cash Received from State of Ohio was understated $49,691;
- Cash Payments to Employees for Services and Benefits were overstated $1,393;
- Cash Payments for Goods and Services were understated $109,592;
- Loan Proceeds and Loan Principal Payments were netted together and presented as Proceeds from Notes;
- Proceeds from Notes for noncapital financing activities were presented as capital and related financing activities;
- Acquisition of Capital Assets was overstated $57,965;
- Capital Lease Principal Payments and Capital Lease Interest Payments were not presented;
- Decrease in Prepaid Items was included as a negative Accounts Payable;
- Increase in Accrued Wages and Benefits was overstated $43,336; and
- Increase in Capital Leases Payable was overstated by $19,280.

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

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

Officials' Response: The Academy will work closely with the Academy Treasurer to insure procedures are in place to correctly report the financial activity and integrity of the financial records.

FINDING NUMBER 2006-006

The contract between Concept Schools (the Academy's Management Company) and the Academy, Part 6, requires that the Academy shall automatically transfer ten percent (10%) of the funds received from the State when such funds are immediately available in the Academy's accounts.

The management company billed the Academy at twelve percent (12%) instead of the contracted ten percent (10%) for the months of May, June and July 2005. The overpayments did not result in an overpayment of Management Company fees because the Academy was in arrears on it fee payments. The terms of the contract were not being met by either of the two parties.

The Board of Trustees should implement procedures to provide for the timely review and remittance of management company fees. Invoices should be reviewed to determine that the correct rate is being charged according to the contract.

FINDING NUMBER 2006-007

Throughout the period ended June 30, 2006, Horizon Science Academy - Dayton received loans from Concept Schools, Breeze Inc., and a line of credit from National City Bank. The proceeds of the loans and the line of credit were to be used for the Academy's operating expenses and to facilitate cash flow on a short term basis. The amounts of the loans were $113,500 and $106,000 respectively and the amount of the line of credit was $55,378. None of these items were approved by the Board of Trustees.

Failure of the Board of Trustees to approve debt could result in the Board participating in a commitment to repay monies of which they do not want to be associated or for which they were unaware. The Board of Trustees should formally approve all debt and have that approval documented in the Board minutes.

Officials' Response: The Academy's governing authority now approves all debt commitments and documents the approval in the monthly Board minutes. Copies of the notes and repayment schedules are submitted to the Academy's Sponsor, Lucas County Educational Service Center as required in the Sponsor Agreement.

FINDING NUMBER 2006-008

For the period ended June 30, 2006, the Academy incurred an operating loss in the amount of ($564,364), a working capital deficiency of ($238,989), and an accumulated deficit of ($438,476). An accumulated deficit is caused by improper monitoring of revenues and expenditures and indicates that the Academy expended money that was not available. Monitoring controls assist in the cash management function and should include:

- Regular review of budget and actual amounts;
- Regular review of financial report summaries of sufficient detail (monthly detailed revenue and expenditure reports);
- Review of revenues and expenditures with independently accumulated information (budgets, past performance, etc.); and
- Review of monthly bank reconciliations.

The Academy should develop and implement a monitoring control system over cash management to ensure that material misstatements do no occur and that liabilities will not be incurred that the school cannot meet. Additionally, the Board of Trustees should request to review bank reconciliations at each monthly meeting and should continuously monitor its financial condition and adjust its financial plan accordingly.

Officials' Response: The Academy's governing authority has been working with the Director and the Management Company to reduce the deficit. We expect that the Academy's FY 2007 audit will show a significant reduction in the deficit.

Mary Taylor, CPA
Auditor of State

HORIZON SCIENCE ACADEMY-DAYTON

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
APRIL 24, 2008

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