



Mary Taylor, CPA  
Auditor of State



**HORIZON SCIENCE ACADEMY - CINCINNATI  
HAMILTON COUNTY**

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Trustees:

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School, as of June 30, 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 School has incurred an operating loss of \$672,216, a change in net assets of negative \$240,697, a negative net working capital of \$158,457 and an accumulated deficit of \$240,697. Management's plans regarding these matters are described in Note 17.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 2009, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

**Mary Taylor, CPA**  
Auditor of State

May 13, 2009

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

The discussion and analysis of Horizon Science Academy- Cincinnati, Inc.'s (the School) financial performance provides an overall review of the financial activities for the period ended June 30, 2006. Readers should also review the financial statements and notes to enhance their understanding of the School's financial performance. The School received its charter from the Lucas County Education Service Center (the Sponsor) for a period of five years commencing November 18, 2004. However, we are only presenting data for the period January 1, 2005 through June 30, 2006.

**Financial Highlights:**

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

- Total net assets at the end of the period were (\$240,697)
- The School had total operating revenues of \$1,067,868
- The School had total operating expenses of \$1,740,084
- Total current liabilities at the end of the period were \$220,774
- The School received Federal and State Grants totaling \$350,066

Table 1 provides a summary of the School's net assets as of June 30, 2006. Since this is the first full period of operations for the School, 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**

<b>ASSETS</b>	
Cash and Other Current Assets	62,317
Capital Assets	122,652
<b>Total Assets</b>	<b>184,969</b>
<b>LIABILITIES</b>	
Current Liabilities	220,774
Long Term Liabilities	204,892
<b>Total Liabilities</b>	<b>425,666</b>
<b>NET ASSETS</b>	
Invested in Capital, Assets net of Related Debt	122,652
Unrestricted	(363,349)
<b>Total Net Assets</b>	<b>(240,697)</b>

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

At June 30 2006, cash and other current assets were \$62,317. Of this amount; \$54,017 represents the balance at the School's bank account and the remaining \$8,300 were grants receivables from ODE. Again at June 30 2006, total capital assets net of depreciation were \$122,652 with an accumulated depreciation of \$25,639. Capital assets of the School included leasehold improvements to the facilities, computers, projectors, classroom furniture and a copy machine lease. The deficit at the end of the period was mainly due to low enrollment in the first year and high maintenance costs of the School facilities. The School's current and long term liabilities at June 30, 2006 are shown in the table 2.

**Table 2:  
Liabilities**

<b>Current Liabilities</b>	
Accounts Payable	39,955
Accrued Wages	63,750
Payroll Liabilities	15,506
Capital Lease- Current	3,680
Personal Loans	32,250
Interest Payable	2,708
Intergovernmental Payable	62,925
<b>Total Current Liabilities</b>	<b>220,774</b>
<b>Long Term Liabilities</b>	
Loan from Concept Schools	57,000
Loan from Breeze Inc.	35,000
Loan from Horizon- Cleveland	100,000
Capital Leases	12,892
<b>Total Long-Term Liabilities</b>	<b>204,892</b>

**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 the period January 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 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.



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

The School uses enterprise presentation for all of its activities.

Table 3 shows the distribution of revenues in the period January 1, 2005 through June 30, 2006.

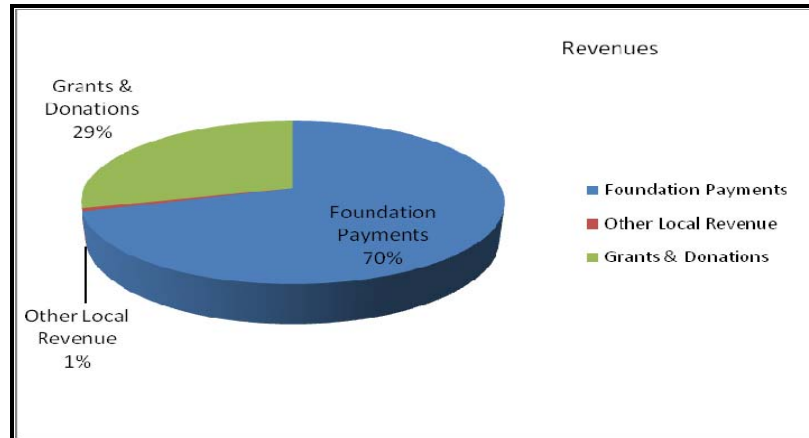
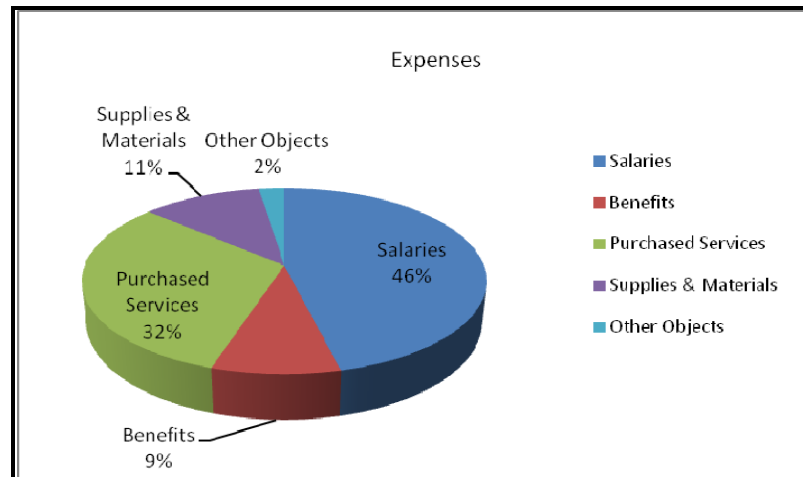


Table 4 shows the distribution of expenses in period January 1, 2005 through June 30, 2006.



**MANAGEMENT’S DISCUSSION AND ANALYSIS  
FOR THE PERIOD OF JANUARY 1, 2005  
THROUGH JUNE 30, 2006  
(UNAUDITED)**

Table 5 shows the Capital Assets net of Accumulated Depreciation.

<b>Capital Assets</b>				
	<b>Balance</b>			<b>Ending</b>
	<b>January 1, 2005</b>	<b>Additions</b>	<b>Deletions</b>	<b>June 30, 2006</b>
Furniture and Equipment	-	112,226		112,226
Leasehold Improvements	-	36,065		36,065
Total Capital Assets	-	148,291		148,291
Less: Accumulated Depreciation	-	(25,639)		(25,639)
<b>Net Capital Assets</b>	<b>\$ -</b>	<b>\$ 122,652</b>		<b>\$ 122,652</b>

**Contacting the School’s Financial Management:**

This financial report is designed to provide citizens, grantors and potential creditors with a general overview of the School’s finances. Questions concerning any of the information in this report or requests for additional information should be directed to Begmurad Nepesov, Fiscal Officer, Horizon Science Academy- Cincinnati, Inc. 1055 Laidlaw Ave. Cincinnati, OH 45237.

**HORIZON SCIENCE ACADEMY – CINCINNATI  
HAMILTON COUNTY  
Statement of Net Assets / Accumulated Deficit  
As of June 30, 2006**

**ASSETS**

**Current Assets**

Cash and Cash Equivalents	54,017
IG Receivable	8,300
<b>Total Current Assets</b>	<b>62,317</b>

**Non-Current Assets**

Capital Assets (Net of Accumulated Depreciation)	122,652
<b>Total Assets</b>	<b>184,969</b>

**LIABILITIES & EQUITY**

**Current Liabilities**

Accounts Payable	39,955
Accrued Wages	63,750
Payroll Liabilities	15,506
Capital Lease- Current	3,680
Personal Loans	32,250
Interest Payable	2,708
IG Payable	62,925
<b>Total Current Liabilities</b>	<b>220,774</b>

**Long Term Liabilities**

Concept Schools Loan	57,000
Breeze Inc. Loan	35,000
Horizon- Cleveland Loan	100,000
Capital Leases	12,892
<b>Total Long-Term Liabilities</b>	<b>204,892</b>

**Total Liabilities**

**425,666**

**NET ASSETS / ACCUMULATED DEFICIT**

Investment in Capital Assets	122,652
Unrestricted	(363,349)
<b>Total Net Assets/Accumulated Deficit</b>	<b>\$ (240,697)</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

HORIZON SCIENCE ACADEMY- CINCINNATI  
HAMILTON COUNTY

**Statement of Revenues, Expenses  
and Change in Accumulated Deficit**  
For the Period January 1, 2005 through June 30, 2006

**Operational Income/Expense**

**Income**

Foundation Payments	1,058,877
Extracurricular Activities	1,439
Other Local Revenue	7,552
<b>Total Operational Income</b>	<b>1,067,868</b>

**Expense**

Salaries	791,552
Benefits	151,041
Purchased Services	539,162
Supplies & Materials	192,179
Other Objects	40,511
Depreciation Expense	25,639
<b>Total Operational Expense</b>	<b>1,740,084</b>

**Net Operational Loss** (672,216)

**Non-Operational Income/Expense**

Federal Grants	313,391
State Grants	36,675
Contributions & Donations	85,610
Interest on Notes	(4,157)
<b>Total Non-Operational Income</b>	<b>431,519</b>

**Net Assets/Accumulated Deficit**

Change in Net Assets/Accumulated Deficit	(240,697)
Net Assets at Beginning of Period	0
<b>Net Assets/Accumulated Deficit at End of Year</b>	<b>\$ (240,697)</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENT

**HORIZON SCIENCE ACADEMY- CINCINNATI  
HAMILTON COUNTY**

**Statement of Cash Flows**

**For the Period January 1, 2005 through June 30, 2006**

**Cash Flows from Operating Activities**

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Cash Received from State of Ohio	\$ 1,121,802
Cash Received from Other Operating Revenues	8,991
Cash Payments to Suppliers for Goods and Services	(616,386)
Cash Payments to Employees for Services	(727,803)
Cash Payments for Employee Benefits	(135,535)
Other Cash Payments	(40,511)
<b>Net Cash Used for Operating Activities</b>	<b>(389,442)</b>

**Cash Flows from Noncapital Financing Activities**

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Federal Grants Received	305,091
State Grants Received	36,675
Donations & Contributions	10,610
Proceeds from Notes	266,750
Payments for Notes	(42,500)
Interest Payments	(1,449)
<b>Net Cash Provided by Noncapital Financing Activities:</b>	<b>575,177</b>

**Cash Flows from Capital and Related Financing Activities**

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Payments for Capital Acquisitions	(128,310)
Payments for Capital Leases	(3,408)
<b>Net Cash Used for Capital and Related Activities</b>	<b>(131,718)</b>

**Net Increase in Cash and Cash Equivalents** **54,017**

**Cash and Cash Equivalents at Beginning of Period** **0**

**Cash and Cash Equivalents at End of Period** **\$ 54,017**

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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HORIZON SCIENCE ACADEMY- CINCINNATI  
HAMILTON COUNTY**

**Statement of Cash Flows**  
**For the Period January 1, 2005 through June 30, 2006**  
**(Continued)**

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

<b>Operating Income</b>	<b>\$ (672,216)</b>
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**Adjustments to Reconcile Operating Loss to Net Cash Used  
for Operating Activities**

Depreciation	25,639
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**Changes in Assets and Liabilities**

Increase in Accounts Payable	39,955
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Increase in Payroll Liabilities	15,506
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Increase in Accrued Wages	63,750
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Increase in IG Payable	62,924
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Increase in Rent Forgiveness	75,000
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<b>Total Adjustments</b>	<b>282,774</b>
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<b>Net Cash Used for Operating Activities</b>	<b>\$ (389,442)</b>
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**Non-cash Items:** During the fiscal period ended June 30, 2006, rental lease obligations of \$75,000 and management fees of \$100,250 were forgiven and not included in the cash transactions.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HORIZON SCIENCE ACADEMY – CINCINNATI  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD JANUARY 1, 2005 THROUGH JUNE 30, 2006**

**1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY**

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

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

The School was approved for operation under contract with the Lucas County Education Service Center (the Sponsor) for a period of five years commencing November 18, 2004 and started its education on March 1, 2005. Later on May 6, 2007 the original contract has been extended until May 30, 2010.

The School operates under the direction of a self-appointed five-member Board of Trustees. The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. In the period ending June 30, 2006 the School employed 35 full time and part time personnel for up to 170 students.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Basis of Presentation**

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

The School uses enterprise accounting to report on its financial activities. Enterprise accounting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

**B. Measurement Focus and Basis of Accounting**

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

**HORIZON SCIENCE ACADEMY – CINCINNATI  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD JANUARY 1, 2005 THROUGH JUNE 30, 2006  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The accounting and financial reporting treatment is determined by its measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the School are included on the Statement of Net Assets. The Statement of Revenues, Expenses, and Changes in Net Assets present increases (e.g., revenues) and decreases (e.g., expenses) in total net assets. The Statement of Cash Flows provides information about how the School finances meets the cash flow needs of its enterprise activities.

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

**C. Budgetary Process**

Unlike other public schools located in the State of Ohio, community Schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705; rather community schools are required to create a Five Year Budget Forecast that is approved by the School Board and submitted to ODE and to the School's Sponsor. The contract between the School and its Sponsor does not prescribe any other budgetary process for the School. For the period ended June 30, 2006, the School did not prepare or file the required five year budget forecast.

**D. Cash**

To improve cash management, all cash received by the School is pooled in a central bank account. The School did not have any investments during fiscal period ended June 30, 2006.

**E. Capital Assets and Depreciation**

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

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

**Useful Life**

Improvements	3 to 10 years
Heavy Duty Office or Classroom Furniture	10 years
Computers and Other Electronic Equipment	3 to 5 years
Vehicles	3 to 10 years



**HORIZON SCIENCE ACADEMY – CINCINNATI  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD JANUARY 1, 2005 THROUGH JUNE 30, 2006  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**F. Intergovernmental Revenues**

The School currently participates in the State Foundation Program, Special Education Program, and Parity Aid Program which are reflected under "Foundation Payments". Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

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

**G. Accrued Liabilities and Long-Term Obligations**

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

**H. Operating Revenues and Expenses**

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

**I. Compensated Absences**

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

**J. Net Assets / Accumulated Deficit**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors, or contracts. The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. At the end of the fiscal period ended June 30, 2006 the School did not have any restricted net assets.

**K. Estimates**

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

**HORIZON SCIENCE ACADEMY – CINCINNATI  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD JANUARY 1, 2005 THROUGH JUNE 30, 2006  
(Continued)**

**3. DEPOSITS AND INVESTMENTS**

On June 30, 2006, the total carrying book balance of the School’s two bank accounts at Fifth Third Bank was 54,017 and the Bank balance was \$82,664. The bank balance was insured by FDIC up to \$100,000. The School had no investments at June 30, 2006 or during the fiscal year.

**4. CAPITAL ASSETS**

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

<b>Capital Assets</b>				
	<b>Balance</b>			<b>Ending</b>
	<b>January 1, 2005</b>	<b>Additions</b>	<b>Deletions</b>	<b>June 30, 2006</b>
Furniture and Equipment	-	112,226		112,226
Leasehold Improvements	-	36,065		36,065
Total Capital Assets	-	148,291		148,291
Less: Accumulated Depreciation	-	(25,639)		(25,639)
<b>Net Capital Assets</b>	<b>\$</b>			
	-	122,652		<b>122,652</b>

**5. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The School contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by calling (800) 878 5853, by visiting SERS website at [www.ohsers.org](http://www.ohsers.org) or by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School District’s contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS’ Retirement Board.

The School’s required contributions for pension obligations to SERS for the fiscal period ended June 30, 2006 was \$17,070; unpaid balance of \$5,070 is recorded under payroll liabilities.

**HORIZON SCIENCE ACADEMY – CINCINNATI  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD JANUARY 1, 2005 THROUGH JUNE 30, 2006  
(Continued)**

**5. DEFINED BENEFIT PENSION PLANS (Continued)**

**B. State Teachers Retirement System**

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

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

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

The School's required contributions for pension obligations to STRS Ohio for the fiscal period ended June 30, 2006 was \$85,618; 100 percent of the contributions have been paid for the period.

**HORIZON SCIENCE ACADEMY – CINCINNATI  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD JANUARY 1, 2005 THROUGH JUNE 30, 2006  
(Continued)**

**6. POSTEMPLOYMENT BENEFITS**

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

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal period ended June 30, 2006, the STRS Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School, this amount equaled \$ 6,115 for the period.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, the balance in the Fund was \$3.5 billion. For the year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000 and STRS had 119,184 eligible benefit recipients. 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 period ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for 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 period ended June 30, 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School, the amount contributed to fund health care benefits, including the surcharge, during the fiscal period equaled \$4,169.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next year. Expenses for health care at June 30, 2006, were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants eligible to receive benefits.

**HORIZON SCIENCE ACADEMY – CINCINNATI  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD JANUARY 1, 2005 THROUGH JUNE 30, 2006  
(Continued)**

**7. RISK MANAGEMENT**

The School is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal period ended June 30, 2006, the School 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 with no deductible. There have been no settlements exceeding coverage in the fiscal period

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

**8. EMPLOYEE MEDICAL AND DENTAL BENEFITS**

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

**9. PURCHASED SERVICES**

Purchased service expenses during the fiscal period ended June 30, 2006 was as follows:

**Purchased Services**

<b>Type</b>	<b>Amount</b>
Professional Services	\$31,534
Rent and Property Services	\$407,103
Advertising and Communications	\$51,705
Pupil Transportation	\$5,654
Food Services	41,820
Staff Travel Expenses	1,346
<b>Total</b>	<b>\$539,162</b>

**10. LONG TERM LIABILITIES**

The School entered into interest free promissory notes with Concept Schools, the Management Company, Breeze Inc. and several other individuals in order to provide cash flows for operating expenses. The School also entered into a loan agreement with Horizon Science Academy-Cleveland, a sister school on January 13, 2006 for \$100,000 with an annual interest of 6.5%. According to the note, the School was supposed to make monthly payments of \$5,845, but due to the deficit in the cash flows, no payments were made until November 2007. At the end of the fiscal year ending June 30, 2006 an accrued interest of \$2,708 was recorded under interest payable. The activity took place for the above loans in the fiscal period are as follows:

**HORIZON SCIENCE ACADEMY – CINCINNATI  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD JANUARY 1, 2005 THROUGH JUNE 30, 2006  
(Continued)**

**10. LONG TERM LIABILITIES (Continued)**

	<u>Beginning Balance</u>	<u>Proceeds</u>	<u>Payments</u>	<u>Ending Balance</u>
Loan from Concept Schools	0	\$ 83,500	\$ 26,500	\$ 57,000
Loan from Breeze Inc	0	\$ 35,000	\$ 0	\$ 35,000
Note Payable to HSA- Cleveland 100,000		0	\$ 100,000	\$ 0
Loan from Onder Secen	0	\$ 47,250	\$ 16,000	\$ 31,250
Loan from Talha Ozdemir	0	\$ 1,000	\$ 0	\$ 1,000
<b>Total</b>	<b>0</b>	<b>\$ 266,750</b>	<b>\$ 42,500</b>	<b>\$ 224,250</b>

**11. CAPITAL LEASES**

In July 2005, the School entered into a capitalized lease agreement for a Copier/printer with Dollar Leasing Company. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee.

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 \$3,408. The following is a schedule of the future minimum lease payments required for the capital leases as of June 30, 2006:

<b>Fiscal Year Ending June 30,</b>	<b>Payments</b>	<b>Interest</b>	<b>Principal</b>
2007	\$ 4,856	\$ 1,176	\$ 3,680
2008	\$ 4,856	\$ 884	\$ 3,972
2009	\$ 4,856	\$ 567	\$ 4,289
2010	\$ 4,856	\$ 226	\$ 4,630
<b>Total</b>	<b>\$19,424</b>	<b>\$2,853</b>	<b>\$16,571</b>

**12. OPERATING LEASES**

On July 1, 2005, the school entered into a lease agreement with Breeze Inc., a sister company to Concept Schools (the Management Company) for the facilities located at 1055 Laidlaw Ave. Cincinnati, OH 45237 for five years. In fiscal year 2006, the monthly rent was \$25,000 with an annual increase of 4%. The school paid \$165,000 of the incurred rent in fiscal year 2006 and Breeze Inc. forgave \$75,000 from the remaining balance. The remaining balance of \$10,000 is recorded under accounts payable.

**HORIZON SCIENCE ACADEMY – CINCINNATI  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD JANUARY 1, 2005 THROUGH JUNE 30, 2006  
(Continued)**

**13. CONTINGENCIES**

**A. Grants**

The school received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the School. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 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 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 reviews for Fiscal Years 2005 & 2006 showed the school was overpaid by \$ 57,114 and \$5,811 respectively. These amounts are recorded under Intergovernmental Payables.

**C. Litigation**

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

**14. SPONSORSHIP AGREEMENT**

On November 18, 2004, the School signed a sponsorship agreement with Lucas County Educational Services. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. On May 6, 2007 the original contract has been extended until May 30, 2010. According to the contract, the School pays 1% of its foundation revenues to the Sponsor. This rate will be increased to 1.5% as of July 1, 2009. In the fiscal period, the school's compensation to the Sponsor was \$10,380.

**15. MANAGEMENT COMPANY AGREEMENT**

School contracted with Concepts Schools, Inc. on January 1, 2005 to serve as the School's Management Company. The contract is renewed automatically every year in one year terms unless the school or the management company decides otherwise. According to the contract the school transfers 10% of the funds received from State. The School only paid \$ 6,744 for management fees in fiscal period 2006. Considering the financial standing of the School all the remaining fees have been forgiven by Concept Schools at the beginning of the School year for fiscal period ending June 30, 2006.

**HORIZON SCIENCE ACADEMY – CINCINNATI  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD JANUARY 1, 2005 THROUGH JUNE 30, 2006  
(Continued)**

**16. RELATED PARTY DISCLOSURE**

**Vedat Akgun / Breeze Inc. / Concept Schools**

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

Mr. Vedat Akgun was also the President of Breeze Inc. which is the property manager and landlord of the School's building. The School signed a lease with Breeze Inc. on January 1, 2005. During the audit period, the School paid in rent the amount of \$165,000. Of the remaining \$85,000; \$75,000 was forgiven. On December 23, 2005 Breeze Inc also loaned \$35,000 to the School. The balance owed at June 30, 2006 was \$35,000.

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

Concept Schools, the School Management Company also issued several loans to the School during the audit period. The balance owed at June 30, 2006 was \$57,000. Considering the financial standing of the School, Concept Schools forgave all the management fees in the fiscal years 2005 & 2006 except \$6,744.

**Onder Secen / Breeze Inc.**

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

Mr. Secen issued four personal loans to the School during the audit period in varying amounts for a total of \$47,250. The outstanding balance as of June 30, 2006 was \$31,250.

**17. PLANS FOR IMPROVEMENT OF FINANCIAL STANDING OF THE SCHOOL**

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

**18. JOINTLY GOVERNED ORGANIZATION**

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



**HORIZON SCIENCE ACADEMY – CINCINNATI  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD JANUARY 1, 2005 THROUGH JUNE 30, 2006  
(Continued)**

**19. NONCOMPLIANCE**

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

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# Mary Taylor, CPA

## Auditor of State

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

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

To the Board of Trustees:

We have audited the financial statements of the business-type activities, of Horizon Science Academy-Cincinnati, Hamilton County, Ohio (the School), as of and for the period January 1, 2005 through June 30, 2006, which collectively comprise the School's basic financial statements and have issued our report thereon dated May 13, 2009, wherein we noted the School has incurred an operating loss of \$672,216, negative net working capital of \$158,457 and accumulated deficit of \$240,697. 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 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 Government'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 2006-002 and 2006-007 through 2006-009.

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 2006-002 and 2006-007 through 2006-009 listed above to be material weaknesses. In a separate letter to the School's management dated May 13, 2009, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

### **Material Noncompliance**

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2006-001 through 2006-006. In a separate letter to the School's management dated May 13, 2009, we reported other matters related to noncompliance we deemed immaterial.

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

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

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

May 13, 2009

**HORIZON SCIENCE ACADEMY-CINCINNATI  
HAMILTON COUNTY**

**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 Under Audit – Onder Secen**

**Ohio Revised Code, Section 3314.03(A)(11)(d)**, requires that each contract entered into between a sponsor and the governing authority of a community school shall specify that the school will comply with Section 149.43 of the Ohio Rev. Code.

**Ohio Revised Code, Section 149.43(B)**, states, in part, that all public records shall be promptly prepared and made available for inspection to any person at all reasonable times during regular business hours. In order to facilitate broader access to public records, public offices shall maintain public records in a manner that they can be made available for inspection in accordance with this division.

Section 504.1(5) of the Horizon Science Academy-Cincinnati Personnel Handbook states, in part, that “credit card holders shall submit original itemized receipts and original credit card charge receipts with the appropriate forms immediately after the purchase completed to the Treasurer.”

Mr. Onder Secen, former School Director, was reimbursed for purchases and finance charges incurred on his personal credit card, which did not have supporting documentation for the reimbursable expenditures. The Board did not issue prior approval for these expenditures demonstrating what public purpose such expenditures served. Without appropriate documentation it is not possible to determine if the expenditures included items that would not be considered a proper public purpose. The failure to maintain adequate support for expenditures could result in a loss of accountability over the Academy’s finances, making it difficult to identify errors which could go undetected, and possibly result in expenditures that are not for a proper public purpose. The following reimbursed expenses did not have original itemized receipts:

<i>Vendor</i>	<i>Description/Explanation</i>	<i>Amount</i>
Jaffa Market/Halley’s	No detailed receipt-charge slip only	\$89.47
Shelvest Electronics	Generic receipt for “shelves & electronics”	130.00
Sam’s Club	Receipt for “motionpant & pantene shampoo”	22.28
Meijer	Receipt for \$100 gift card	100.00
Turkish Cuisine	No detailed receipt-charge slip only	182.25
Meijer	Receipt for Red Bull	1.99
Providian Finance	Finance Charges (total of \$1,152.37, less support for \$1,084.50= \$67.87 unsupported)	1,152.37
AACRAO Int’l Ed	No detailed receipt-charge slip only	340.00
Purdue MBNA Finance	Finance Charges	977.09
	<b>Total</b>	<b>\$2,995.45</b>

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 Mr. Onder Secen, in the amount of \$2,995.45 and in favor of Horizon Science Academy – Cincinnati. The School received a check from Concept Schools for \$2,995.45 on May 12, 2009 as repayment for Mr. Secen.

**FINDING NUMBER 2006-001  
(Continued)**

**Officials' Response:**

As the founding Director of the School, Mr. Secen showed extra ordinary effort in order to start Horizon Science Academy- Cincinnati. He is a talented and dedicated educator who continues to work for Horizon Science Academies. Even though the School started its operation in early January, foundation payments were not received until May 11, 2005. During this time, the School depended on the loans from its management company and personal loans from individuals such as Mr. Secen. In the first year, apart from credit card expenditures, Mr. Secen also provided non-interest loans to the School in the total of \$47,250 in order to cover for the operational costs of the School. Regarding to the expenditures in question, Mr. Secen accepted his fault for not being able to keep itemized receipt, but provided reasonable explanations such as why and how they were made. Considering Mr. Secen's explanations, the School Board and Concept Schools, the School's management company agreed upon that; those charges are acceptable in nature and were for the good the School which constitutes proper public purpose. Mr. Secen also provided evidence that all the interest payments on his personal credit card were towards the balance coming from the expenditures for the School and not for his personal expenditures. The School Board and the School's management company do not agree that those expenditures were made illegally. Therefore; on behalf of Mr. Secen, Concept Schools agreed to recover for the expenditures in question.

**Auditor of State's Conclusion:**

ORC 3314.08 provides the basis for which Community Schools are funded. Community Schools receive funding from the state through the per-pupil foundation allocation. Unlike city, local, exempted village and joint vocational school districts, Community Schools have no tax base from which to draw funds for buildings and investment in infrastructure. As with all public schools, Community Schools may seek additional funds through grants, as well as other government and private sources.

The School's decision to self-fund the start-up effort through the use of loans from its management company and personal loans from individuals and employees was not in the manner recommended in "NEW COMMUNITY SCHOOL SEQUENCE OF ACTIVITIES" provided by the Ohio Department of Education. This list is located at the ODE Website under "School Options" then "How is a Community School Created?" This list recommends acquiring start up grants prior to opening the community school.

**FINDING NUMBER 2006-002**

**Noncompliance and Material Weakness**

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

The School's Financial Report for the period January 1, 2005 through June 30, 2006 contained errors which resulted in numerous adjustments to correctly report the financial activity during and at the end of the period as follows:

**FINDING NUMBER 2006-002  
(Continued)**

**Statement of Net Assets/Accumulated Deficit:**

- Capital Assets were understated by \$55,116;
- Accumulated Depreciation was understated by \$9,331;
- Invested In Capital Assets, Net of Related Debt was understated \$45,785;
- Accumulated Deficit was overstated \$45,785.

**Statement of Revenues, Expenses and Changes in Accumulated Deficit:**

- Depreciation Expense was understated \$9,331.

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 of the financial records. Additionally, the amounts in the financial statements, notes to the financial statements, and MD&A should be supported by the appropriate documentation.

**Officials' Response:**

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

**Auditor of State's Conclusion:**

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

**FINDING NUMBER 2006-003**

**Noncompliance**

**Article II (FF) of the Contract for Start-Up Ohio Community School** between the School and its' Sponsor, states that the School may borrow money only to pay necessary and actual expenses of the School in anticipation of receipt of any portion of the payments to be received by the School. The School may issue notes to evidence such a borrowing. A copy of all notes must be provided to Sponsor within five days of signing. In addition, the School's policy is to obtain Board approval for expenses greater than \$5,000.

During the audit period, the Board received the following loans:

**FINDING NUMBER 2006-003  
(Continued)**

- Loan from Zafer Ozdemir, a Board Member, in the amount of \$1,000. No indication of approval by the Board in the minutes; however a note was prepared and signed by both parties;
- Loan from Breeze, Inc, Building Landlord, in the amount of \$35,000. No indication of approval by the Board in the minutes; however a note was prepared, but only signed by the School;
- Loan from Horizon Science Academy Cleveland, totaling \$100,000. No indication of approval by the Board in the minutes; however a note was prepared, but only signed by Horizon Cleveland;
- Two loans from Concept Schools, the School's Management Company, totaling \$83,500. The \$26,500 loan was approved by the Board; however the amount of the loan was not noted. The \$57,000 loan had no indication of approval by the Board in the minutes. Both of these loans were evidenced by notes; however they were only signed by the School; and
- Four loans from Onder Secen, School Director, totaling \$47,250. Board minutes indicate approval of a loan from Onder Secen, but no amount was indicated. All four of these loans were evidenced by notes; however three of the four were signed by Onder Secen on behalf of himself and on behalf of the School.

Failure of the Board of Trustees to approve debt could result in the School participating in a commitment to repay monies of which they do not want to be associated or for which they were unaware. In addition, the School could exceed their budget and not have funds to pay for items that were included in their budget. The School should make every effort to adhere to the established policies and procedures for processing disbursements. The Board of Trustees should formally approve all debt and document that approval in the Board minutes. In addition, duly signed notes should be entered into when money is borrowed. Failure to do so could result in a misunderstanding over interest rates, amounts borrowed, payment methods and due dates, between the lender and the borrower.

**Officials' Response:**

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

**FINDING NUMBER 2006-004**

**Noncompliance Citation**

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

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



**FINDING NUMBER 2006-004  
(Continued)**

- 33% (14/42) of employee contracts/salary agreements were not maintained in employee personnel files;
- 54% (71/131) of non-salary employee timesheets were not maintained to support the employees' pay for the pay period;
- 43% (16/37) of employee personnel files did not include all required forms. The following items were missing: Ohio IT-4 forms, SERS/STRS retirement forms, BCI forms, and teacher licenses;
- A list of 1099's to be prepared for 2005 was located, but no copies of the 1099's prepared were presented for review during the audit;
- No EMIS user access forms, with all access to the CSADM system, were presented for review during the audit; and
- No documentation of employee leave balances and not all leave forms for leave taken were presented for audit.

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

**Officials' Response:**

The School's management will develop necessary policies and procedures in order to avoid such issues in the future.

**FINDING NUMBER 2006-005**

**Noncompliance Citation**

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

For the period of time under audit, 47% (9 of 19) of the School's teachers were not properly licensed through the Ohio Department of Education. The School should adopt policies and procedures to verify during the hiring process that all teachers are properly certified. The school should regularly review the status of their teachers, and maintain supporting documentation in their personnel files. This will assist the School in complying with state teaching guidelines by hiring licensed teachers.

**Officials' Response:**

All the teachers mentioned in the finding were substitute or part time teachers who thought (*sic*) for very short time and in many cases thought (*sic*) less than 12 hour per week. All the full time teachers were properly licensed.

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

**Auditor of State’s Conclusion:**

The records provided by the School for audit indicate that eight teachers out of nineteen tested (100%) were full time teachers with contracts and were not properly licensed. In addition, another teacher was an unlicensed substitute who taught in excess of twelve hours per week. Substitutes who teach in excess of twelve hours per week are required to be licensed as substitutes by the Ohio Department of Education. Names of the unlicensed teachers and related dates were provided to the School on April 30, 2009.

**FINDING NUMBER 2006-006**

**Noncompliance Citation**

**Ohio Revised Code, Section 5705.391(A), and Ohio Administrative Code, Section 3301-92-04,** require schools to prepare five-year projections of revenues and expenditures as part of their spending plans. The five year projections must be submitted to the Department of Education upon the adoption of an annual appropriation measure but no later than October 31 of each fiscal year and an updated five year projection must be submitted between April 1 and May 31 of each fiscal year.

During the period January 1, 2005 through June 30, 2006, the School did not prepare or file the required five-year projections with ODE for the fiscal year ended June 30, 2005 or June 30, 2006.

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

**Officials’ Response:**

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

**Auditor of State’s Conclusion:**

This citation is for 2006 noncompliance. In 2006, no five-year forecast was submitted to the Ohio Department of Education as required.

**FINDING NUMBER 2006-007**

**Material Weakness**

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

- The School paid the IRS \$861.53 for late fees and penalties charges;
- Supporting documentation could not be located for 1 of 40 (3%) expenditures tested in the amount of \$1,200 for cable installation;
- \$10,852 of \$46,699 (23%) reimbursed to Mr. Onder Secen, original School Director, had no supporting documentation. Review of payment vendors was used to determine the legitimacy of these expenditures and Finding 2006-001 was issued for those items that did not represent a proper public purpose; and

**FINDING NUMBER 2006-007  
(Continued)**

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

- The School paid \$1,377 of \$8,444 (16%) without supporting documentation;
- \$79 of \$8,444 (1%) was paid without itemized receipts; and
- 100 of 100 (100%) expenditures tested did not have a requisition form (as required by the Schools' policy manual).

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

- Deneen Carter, former Secretary, was overpaid \$2,557.32 when comparing total pay to contract. She received "hourly rate secretary pay" but no timesheet or supporting documentation for these amounts; and
- The school paid 5 employees \$60 per day for substitute teaching. In total, \$1,020 was paid for substitute teaching however, the school failed to retain timesheets or documentation for these amounts.

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

- 2 employees were overpaid \$25 each when comparing leave balances to payouts; and
- 4 employees did not receive a payout, yet should have based upon their leave balances.

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

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

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

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

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

**FINDING NUMBER 2006-007  
(Continued)**

The School should verify that all expenditures serve a proper public purpose by paying credit card balances timely and utilizing their tax exempt status. Proper documentation was not always attached to the vouchers to support the validity or proper posting of the expenditure and no documentation was presented that disbursements were authorized before payment. During our testing of debit card disbursements, 6% of the expenditures tested did not have sufficient detail on the supporting documentation to evaluate whether it was for a proper public purpose and 16% had no supporting documentation. Employees who are paid above and beyond their contracted amounts should prepare a timesheet or other documentation to provide proof of their additional hours and/or work necessitating additional payroll. Several employees were paid either in excess of their leave balances or less than what they were entitled to. The forms indicating leave taken during the school year were not signed by all employees. The lack of a system of approvals and documentation significantly increases the probability of expenditures being made that are not for a proper public purpose.

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

**Officials' Response:**

The School adopted financial policies and procedures in order to increase its financial accountability. In the future, the School Administration will be more careful in the application of these policies. Please also see the response for the Finding Number 2006-001 for reimbursements to Mr. Secen.

**FINDING NUMBER 2006-008**

**Material Weakness**

The Employment Contract between Horizon Science Academy (HSA) and Teachers states that in addition to salary amounts the Academy will also provide additional benefits as outlined in the Employee Handbook. As part of a general bonus policy, the teacher can earn up to 10% bonus at the end of 2005-2006 school year.

For the period ended June 30, 2006, the School paid bonuses totaling \$11,570. These bonuses were not outlined in the Teachers Employment Contract, the Board of Trustees minutes, nor were they outlined in the Employee Handbook.

- Sixteen teachers received a \$50 bonus for a "successful start of school."
- Two teachers received \$1,220 for "new enrollment efforts."
- Seven employees received \$9,550 with no supporting documentation.

**FINDING NUMBER 2006-008  
(Continued)**

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

Of the 27 bonus checks issued, none of the checks had adequate supporting documentation. Seven of the 27 checks (26%) were not approved by the Director and had no supporting documentation. Of the other 20 checks, 17 (63%) of them had no documentation other than a memo indicating that teachers are to be paid a bonus, with no names or amounts indicated. The remaining three checks (11%) had no documentation beyond a memo indicating the total amount to be paid as a bonus for enrolling students.

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

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

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

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

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

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

**Officials' Response:**

We believe the necessity of bonuses in order to motivate our teachers and appreciate their hard work. In the fiscal year 2006, all the bonuses were paid according to the employee contracts which stated that employees can earn bonuses up to 10% of their salaries according to their performances during the school year. In order to make the process more transparent and accountable, in the future the School administration will document the assessments and board approvals of all bonus payment to its employees.

**FINDING NUMBER 2006-008  
(Continued)**

**Auditor of State's Conclusion:**

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

**FINDING NUMBER 2006-009**

**Material Weakness**

For the period ended June 30, 2006, the School incurred an operating loss in the amount of (\$672,216), a change in net assets of (\$240,697), net working capital of (\$158,457) and an accumulated deficit of (\$240,697). An accumulated deficit is caused by improper monitoring of revenues and expenditures and indicates that the School expended money that was not available.

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

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

- No regular review of Treasurer's report at 13 of 17 Board meetings (76%);
- Many of the School's loans, detailed in Finding 2006-003, were not signed by both parties involved;
- No management review of non-salary employees' timesheets;
  - FY05: 40 of 41 (98%) employees' timesheets were not maintained and the one timesheet located was not approved by the Director
  - FY06: 42 of 59 (71%) employee's timesheets were not approved by Director
- 2 of 23 (8%) of salaried employees' contracts were not signed by employee;
- No duplicate receipts were issued for receipts received during the audit period;
- No one at the school is inspecting and reconciling the following reports for financial and staff data: Standard Validation (EMSVLD), Aggregation Validation, (EMSAGG5), Aggregation Exclusion (EMSAGG6) and EMSRDET Validation (EMSRDET);
- The written amounts in the lease agreement with Breeze for rental of the building do not match the dollar amounts in the agreement, monthly or annually;
- 35 of 40 (88%) expenditures tested did not have a requisition form (as required by the Schools' policy manual). Of the 5 expenditures with requisition forms, 4 were approved by the Director as required by the Schools' policy manual; and
- 40 of 40 (100%) expenditures tested did not have a purchase order approved by Director (as required by the Schools' policy manual).

**FINDING NUMBER 2006-009  
(Continued)**

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

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

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

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

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

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

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

**Officials' Response:**

We believe statement of operating loss in this finding is misleading because in the calculation of operating loss expenditures from Federal and State grants are considered as operating expenditures whereas income from those sources are considered as non-operating revenues. In this sense, all the Schools show operating loses according to the size of Federal and State grants they receive. The calculation method makes it kind of impossible for schools to record any operational gain. Therefore, we recommend readers to disregard the amount of operating loss. We also believe the low enrollment and start-up costs contributed to the accumulated deficit in the first fiscal year of the School.

**Auditor of State's Conclusion:**

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







**Mary Taylor, CPA**  
Auditor of State

**HORIZON SCIENCE ACADEMY - CINCINNATI  
HAMILTON COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JUNE 16, 2009**