HORIZON SCIENCE ACADEMY CINCINNATI
HAMILTON COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2008

Mary Taylor, CPA
Auditor of State

HORIZON SCIENCE ACADEMY - CINCINNATI
HAMILTON COUNTY

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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 year ended June 30, 2008, 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, 2008, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements indicate the School has incurred an operating loss of $577,247, a change in net assets of negative $80,004, negative net working capital of $322,996 and an accumulated deficit of $218,635. 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.

Corporate Centre of Blue Ash / 11117 Kenwood Rd. / Blue Ash, OH 45242
Telephone: (513) 361-8550 (800) 368-7419 Fax: (513) 361-8577
www.auditor.state.oh.us

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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

May 13, 2009

HORIZON SCIENCE ACADEMY – CINCINNATI
HAMILTON COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(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 fiscal year ended June 30, 2008. Readers should also review the financial statements and notes to enhance their understanding of the School's financial performance.

Financial Highlights:

Key financial highlights for fiscal year 2008 are as follows:

- Total net assets decreased by $80,004
- The School had total operating revenues of $1,285,936
- The School had total operating expenses of $1,863,183
- The current liabilities increased by $138,300
- The School received Federal and State Grants totaling of $314,650

At June 30 2008, total capital assets net of depreciation were $242,188 with an accumulated depreciation of $149,605. In the fiscal year the School capitalized leasehold improvements of $10,000. Those improvements included remodeling and painting of additional classrooms. In the fiscal year, the School received a loan of $80,000 from Noble Academy- Columbus and a loan of $50,000 from Concept Schools. In the fiscal year the School made loan payments of $152,597 reducing its long term liabilities to $137,827. However the School's current liabilities increased by $138,300. This increase was mainly because of the increase on the rent payable to Breeze Inc. The School recorded a rent payable of $135,697 under accounts payable. In fiscal year 2008 expenses under Supplies and Materials increased by 111% (from $74,943 to $158,246) due to classification of school lunch purchases (total of $66,365) under Supplies and Materials rather than under the Purchased Services line item.

Using this Financial Report:

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

The *Statement of Net Assets* and *Statement of Revenues, Expenses, and Changes in Net Assets* reflect how the School did financially during fiscal year 2008. 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.

The School uses enterprise presentation for all of its activities.

Table 1 shows the distribution of revenues in Fiscal Year 2008.

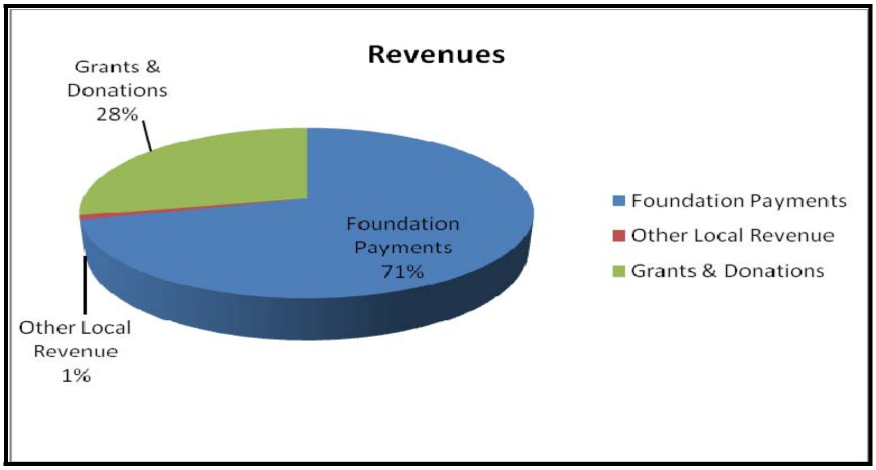

Table 2 shows the distribution of expenses in Fiscal Year 2008.

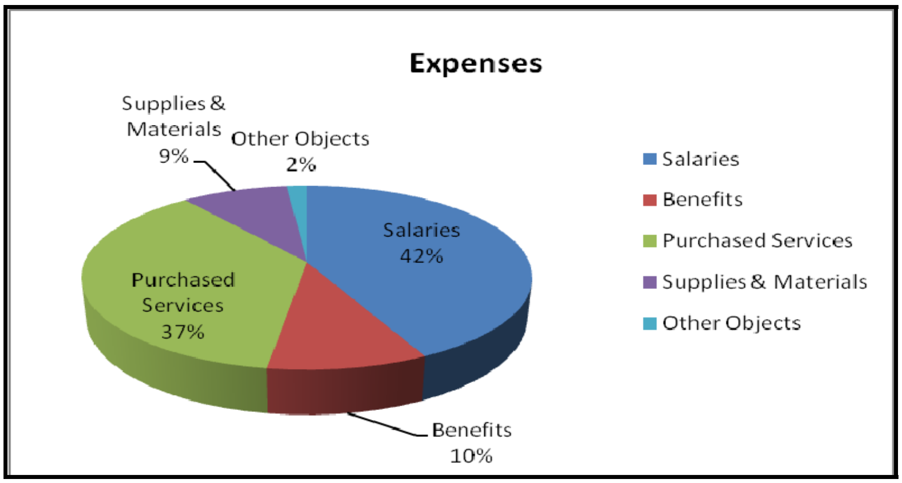

Table 3 shows the Capital Assets net of Accumulated Depreciation.

Capital Assets				
	Balance July 1, 2007	**Additions**	**Deletions**	**Ending June 30, 2008**
Furniture and Equipment	$133,733	$7,712	$0	$141,445
Facility Improvements	191,565	58,783	0	250,348
Total Capital Assets	**325,298**	**66,495**	**0**	**391,793**
Less: Accumulated Depreciation	(57,518)	(92,087)	0	(149,605)
Net Capital Assets	**$267,780**	**$25,592**	**$ 0**	**$242,188**

Table 4 provides a summary of the School's Net Assets/Accumulated Deficit for fiscal years 2007 and 2008.

	June 30, 2007	June 30, 2008
ASSETS		
Current Assets		
Cash and Cash Equivalents	$0	$8,928
IG Receivable	102,913	38,860
Total Current Assets	**102,913**	**47,788**
Non-Current Assets		
Capital Assets (Net of Accumulated Depreciation)	267,780	242,188
Total Assets	**370,693**	**289,976**
LIABILITIES & EQUITY		
Current Liabilities		
Cash and Cash Equivalents	85,920	0
Accounts Payable	97,715	249,215
Accrued Wages	98,013	62,465
Payroll Liabilities	(4,364)	3,896
Capital Lease- Current	3,973	4,289
Personal Loans	2,250	0
Interest Payable	9,208	11,430
IG Payable	25,689	11,032
Horizon Cleveland Loan -Current	0	18,267
Noble Academy- Columbus Loan	0	10,190
Total Current Liabilities	**318,404**	**370,784**
Long Term Liabilities		
Concept Schools Loan	47,000	33,000
Breeze Inc. Loan	35,000	30,000
Horizon- Cleveland Loan	100,000	70,196
Capital Leases- Long Term	8,920	4,631
Total Long-Term Liabilities	**190,920**	**137,827**
Total Liabilities	**$509,324**	**$508,611**

NET ASSETS/ACCUMULATED DEFICIT		
Investment in Capital Assets, Net of Related Debt	267,780	226,188
Unrestricted	(406,411)	(444,823)
Total Net Assets/Accumulated Deficit	**$(138,631)**	**$(218,635)**

Table 5 provides a comparison of the School's Revenues, Expenses and Change in Net Assets/Accumulated Deficit for fiscal years 2007 and 2008.

	June 30, 2007	**June 30, 2008**
Operational Income/Expense		
Income		
Foundation Payments	$1,032,750	$1,270,462
Extracurricular Activities	1,489	4,152
Other Local Revenue	10,883	11,322
Total Operational Income	**1,045,122**	**1,285,936**
Expense		
Salaries	783,621	753,451
Benefits	174,359	174,638
Purchased Services	603,721	654,931
Supplies & Materials	74,943	158,246
Other Objects	45,736	29,830
Depreciation Expense	31,879	92,087
Total Operational Expense	**1,714,258**	**1,863,183**
Net Operational Loss	**(669,136)**	**(577,247)**
Non-Operational Income/Expense		
Federal Grants	546,734	307,140
State Grants	8,800	7,510
Contributions & Donations	222,168	190,783
Interest on Notes	(6,500)	(8,190)
Total Non-Operational Expense	**771,202**	**497,243**
Net Assets/Accumulated Deficit		
Change in Net Assets/Accumulated Deficit	100,262	(80,004)
Net Assets/Accumulated Deficit at Beginning of Year	(240,697)	(138,631)
Net Assets/Accumulated Deficit at End of Year	**$(138,631)**	**$(218,635)**

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.

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HORIZON SCIENCE ACADEMY – CINCINNATI
HAMILTON COUNTY

Statement of Net Assets/Accumulated Deficit
For the Fiscal Year Ended June 30, 2008

ASSETS	
Current Assets	
Cash and Cash Equivalents	$8,928
IG Receivable	38,860
Total Current Assets	**47,788**
Non-Current Assets	
Capital Assets (Net of Accumulated Depreciation)	242,188
Total Assets	**289,976**
LIABILITIES & EQUITY	
Current Liabilities	
Accounts Payable	249,215
Accrued Wages	62,465
Payroll Liabilities	3,896
Capital Lease- Current	4,289
IG Payable	11,032
Interest Payable	11,430
Horizon Cleveland Loan -Current	18,267
Noble Academy- Columbus Loan	10,190
Total Current Liabilities	**370,784**
Long Term Liabilities	
Concept Schools Loan	33,000
Breeze Inc. Loan	30,000
Horizon- Cleveland Loan	70,196
Capital Leases- Long Term	4,631
Total Long-Term Liabilities	**137,827**
Total Liabilities	**508,611**
NET ASSETS/ACCUMULATED DEFICIT	
Investment in Capital Assets, Net of Related Debt	226,188
Unrestricted	(444,823)
Total Net Assets/Accumulated Deficit	**$(218,635)**

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

HORIZON SCIENCE ACADEMY – CINCINNATI
HAMILTON COUNTY

Statement of Revenues, Expenses
and Change in Net Assets/Accumulated Deficit
For the Fiscal Year Ended June 30, 2008

Operational Income/Expense	
Income	
Foundation Payments	$1,270,462
Extracurricular Activities	4,152
Other Local Revenue	11,322
Total Operational Income	**1,285,936**
Expense	
Salaries	753,451
Benefits	174,638
Purchased Services	654,931
Supplies & Materials	158,246
Other Objects	29,830
Depreciation Expense	92,087
Total Operational Expense	**1,863,183**
Net Operational Loss	**(577,247)**
Non-Operational Income/Expense	
Federal Grants	307,140
State Grants	7,510
Contributions & Donations	190,783
Interest on Notes	(8,190)
Total Non-Operational Income	**497,243**
Net Assets/Accumulated Deficit	
Change in Net Assets/Accumulated Deficit	(80,004)
Net Assets/Accumulated Deficit at Beginning of Year	(138,631)
Net Assets/Accumulated Deficit at End of Year	**$(218,635)**

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENT

HORIZON SCIENCE ACADEMY – CINCINNATI
HAMILTON COUNTY

Statement of Cash Flows
For Fiscal Year Ended June 30, 2008

Cash Flows from Operating Activities	
Cash Received from State of Ohio	$1,255,805
Cash Received from Other Operating Revenues	15,474
Cash Payments to Suppliers for Goods and Services	(488,895)
Cash Payments to Employees for Services	(788,999)
Cash Payments for Employee Benefits	(166,379)
Other Cash Payments	(29,830)
Net Cash Used for Operating Activities	**(202,824)**
Cash Flows from Noncapital Financing Activities	
Federal Grants Received	371,195
State Grants Received	7,510
Donations & Contributions	2,000
Proceeds from Notes	130,000
Payments for Notes	(152,597)
Interest Payments	(5,968)
Net Cash Provided by Noncapital Financing Activities:	**352,140**
Cash Flows from Capital and Related Financing Activities	
Payments for Capital Acquisitions	(50,495)
Payments for Capital Leases	(3,973)
Net Cash Used for Capital and Related Activities	**(54,468)**
Net Increase in Cash and Cash Equivalents	**94,848**
Cash and Cash Equivalents at Beginning of Year	**(85,920)**
Cash and Cash Equivalents at End of Year	**$8,928**

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

HORIZON SCIENCE ACADEMY – CINCINNATI
HAMILTON COUNTY

Statement of Cash Flows
For Fiscal Year Ended June 30, 2008
(Continued)

Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating Loss	**(577,247)**
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities	
Depreciation	92,087
Changes in Assets and Liabilities	
Increase in Accounts Payable	135,499
Increase in Payroll Liabilities	8,259
Decrease in Accrued Wages	(35,548)
Decrease in IG Payable	(14,657)
Increase in Rent Forgiveness	188,783
Total Adjustments	**374,423**
Net Cash Used for Operating Activities	**$(202,824)**

Non-cash Items: During the fiscal year ended June 30, 2008, rental lease obligations of $188,783 and management fees of $124,259 were forgiven and not included in the cash transactions.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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 Educational Service Center (the Sponsor) for a period of five years commencing November 18, 2004. Later on May 6, 2008 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 FY2008 the School employed 34 full time and part time personnel for up to 202 students.

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 the School. In exchange for its services, Concept Schools receives ten percent of state funds received by the School, see Note 15. The School is associated with other Horizon Science Academies throughout the State.

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. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods and 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 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.

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.

D. Cash

To improve cash management, all cash received by the School is pooled in a central bank account. The School did not have any investments during fiscal year 2008.

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 one thousand dollars for inventory assets and ten thousand dollars 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.

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

F. Intergovernmental Revenues

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

The amount of these grants is directly related to the number of students enrolled in the School. The Ohio Department of Education conducts reviews of enrollment data and fulltime equivalency (FTE) calculations made by the Academy. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated.

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 full time employees are awarded $50 per each unused sick/personal day.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors, or contracts. The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. At the end of the fiscal year ended June 30, 2008 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.

3. DEPOSITS AND INVESTMENTS

On June 30, 2008, the total carrying book balance of the School's two bank accounts at Fifth Third Bank was $8,928 and the total Bank balance was $70,558. The bank balance was insured by FDIC up to $100,000. The School had no investments at June 30, 2008 or during the fiscal year.

4. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008 was as follows:

Capital Assets				
	Balance July 1, 2007	Additions	Deletions	Ending June 30, 2008
Furniture and Equipment	$133,733	$7,712	$0	$141,445
Facility Improvements	191,565	58,783	0	250,348
Total Capital Assets	**325,298**	**66,495**	**0**	**391,793**
Less: Accumulated Depreciation	(57,518)	(92,087)	0	(149,605)
Net Capital Assets	**$267,780**	**$25,592**	**$0**	**$242,188**

5. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Funding Policy - 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's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2008, 9.16 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 by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were $14,921, $9,132 and $17,070 respectively; 100 percent has been contributed for fiscal year 2008 and previous fiscal years.

B. State Teachers Retirement System

Plan Description - The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

5. DEFINED BENEFIT PENSION PLANS (Continued)

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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For the fiscal year ended June 30, 2008, 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 year 2007, 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 years ended June 30, 2008, 2007, and 2006 were $94,936, $96,138, and $85,618 respectively; 100 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

6. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description – The School participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was $35,800.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.
The School's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were $4,455, $2,165, and $4,169 respectively; 100 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

6. POSTEMPLOYMENT BENEFITS (Continued)

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2008, this actuarially required allocation was 0.66 percent of covered payroll. The School's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 were $703, $430, and $805 respectively; 100 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

B. State Teachers Retirement System

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

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were $6,781, $6,867, and $6,115 respectively; 100 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

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 the fiscal year 2008, the School contracted with Indiana Insurance Company for property and general liability insurance with a $1,000,000 single occurrence limit and $2,000,000 annual aggregate with no deductible. There have been no settlements exceeding coverage in the last three years.

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, 2008.

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 fiscal year 2008 were as follows:

Purchased Services

Type	Amount
Professional Services	$91,969
Rent and Property Services	471,262
Advertising and Communications	56,342
Pupil Transportation	20,394
Food Services	9,135
Staff Travel Expenses	5,829
Total	**$654,931**

10. LONG TERM LIABILITIES

In the previous years 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. In November 2007, a new agreement has be made among the School Boards proposing monthly payments of $1,956.61 over 60 months. At the end of the fiscal year ending June 30, 2008 the accumulated interest on the loan is $11,375.

Also, in September 2007, the School entered into a promissory note for $80,000 with an interest rate of 6.5% with Noble Academy- Columbus, another sister school under Concept Schools management. According to the note, the School was supposed to make eight equal monthly payments of $10,245.29 between November 2007 and June 2008. The School made all the payments except the last one. A total interest of $1,907 was paid and $55 is recorded as interest payable.

The balances for the above loans and note payables as of June 30, 2008 are as follows:

10. LONG TERM LIABILITIES (Continued)

	Balance as of 6/30/2007	Proceeds in FY2008	Payments in FY2008	Balance as of 6/30/2008	Due within One Year
Loan from Concept Sc.	$ 47,000	$ 50,000	$ 64,000	$ 33,000	-
Loan from Breeze Inc.	35,000	-	5,000	30,000	-
Note Pay. to HSA- Clev.	100,000	-	11,537	88,463	$ 18,267
Note Pay. to Noble-Col.	-	80,000	69,810	10,190	10,190
Loan from Onder Secen	1,250	-	1,250	-	-
Loan from Talha Ozdemir	1,000	-	1,000	-	-
Total	**$ 184,250**	**$ 130,000**	**$ 152,597**	**$ 161,653**	**$ 28,457**

Annual debt service requirements to maturity are as follows:

Horizon Science Academy-Cleveland Note Payable

Fiscal Year Ended June 30	Principal	Interest	Total
2009	$ 18,267	$5,212	$ 23,479
2010	19,490	3,989	23,479
2011	20,796	2,683	23,479
2012	22,188	1,291	23,479
2013	7,722	105	7,827
Total	$88,463	$ 13,280	$101,743

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 following is a schedule of the future minimum lease payments required for the capital leases as of June 30, 2008;

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.

During the fiscal year principal payments and interest payments totaled $3,973 and $884 respectively. The following is a schedule of the future minimum lease payments required for the capital leases as of June 30, 2008;

11. CAPITAL LEASES (Continued)

Fiscal Year Ending June 30	Payments	Interest	Principal
2009	$4,856	$567	$4,289
2010	4,856	225	4,631
Total	**$9,712**	**$792**	**$8,920**

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 2008, the monthly rent was $27,040 with an annual increase of 4%. In the fiscal year ended June 30 2008, a total of $324,480 incurred as rent payable. A portion of $188,783 has been written-off by Breeze Inc. due to facility improvements done during the fiscal years in 2007 and 2008. The remaining balance of $135,697 has been recorded under accounts payable, bringing the total rent payable up to $195,697.

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, 2008.

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 review for Fiscal Year 2008 showed the school was overpaid by $11,032 which is recorded as a liability 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 July 1, 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 fiscal year 2008, the school's compensation to the Sponsor was $11,193.

15. MANAGEMENT COMPANY AGREEMENT

School contracted with Concepts Schools, Inc. on March 15, 2006 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. Upon reviewing the schools budget for the fiscal year, Concept Schools waived all the management fees in the total of $126,828 for fiscal year 2008.

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 year, a total of $324,480 was incurred in rent payables. Of this amount, $188,783 has been forgiven by Breeze Inc due to improvements made on the building and remaining $135,697 was recorded under accounts payables. On December 23, 2005 Breeze Inc also loaned $35,000 to the School. The balance owed at June 30, 2008 was $30,000.

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 appointed among the Board Members of Horizon Science Academies.

Concept Schools, the School's Management Company also issued several loans to the School during the fiscal year 2006 in the total of $57,000 and in fiscal year 2008 for $50,000. The balance owed at June 30, 2008 was $33,000. Considering the financial standing of the School, Concept Schools forgave all the management fees in the fiscal year 2008 in the total of $124,259.

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.

16. RELATED PARTY DISCLOSURE (Continued)

Mr. Secen issued four personal loans to the School during the fiscal year 2006 in varying amounts for a total of $47,250. The balance outstanding at June 30, 2008 was $0 since it was paid off on June 26, 2008.

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 three 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.

19. SUBSEQUENT EVENTS

On August 25, 2008 the School signed an equipment lease agreement with Relational LLC in order to purchase school furniture, textbooks, and IT equipment up to $150,000. Under the scope of the agreement, on November 3, 2008, the School purchased computers for Dell for a total of $20,992. Starting from January 2009, the School will make 12 quarterly payments of $1,996.

On August 28, 2008, the School received a non-interest, short term loan from Breeze Inc. in the amount of $25,000. The loan was paid off on September 11, 2008.

In October 2008, the School received a donation of $45,000 from New Plan Learning Inc. which is the owner institution of Breeze Inc.

On November 6, 2008, the School received another non-interest, short term, loan from Begmurad Nepesov, the School's Business Manager for $10,000 in order to overcome the cash flow shortage. The loan was paid off on November 11, 2008 after the School received its foundation payment for the month from ODE.

20. NONCOMPLIANCE

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

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 year ended June 30, 2008, 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 $577,247, a change in net assets of negative $80,004, negative net working capital of $322,996, an accumulated deficit of $218,635 and that the School is experiencing significant financial difficulties. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the School's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the School's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2008-003 and 2008-007 through 2008-009.

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2008-003 and 2008-007 through 2008-009.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the School's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, of the significant deficiencies described above, we believe finding numbers 2008-003 and 2008-07 through 2008-009 are also material weaknesses.

We also noted certain internal control matters that we reported to the School's management in a separate letter dated May 13, 2009.

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 2008-001 through 2008-006.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the School's management in a separate letter dated May 13, 2009.

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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

May 13, 2009

SCHEDULE OF FINDINGS
JUNE 30, 2008

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

FINDING NUMBER 2008-001

Finding for Recovery Repaid Under Audit

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 year ended June 30, 2008, Horizon Science Academy-Cincinnati issued a payment to The Fleischer Law Firm to obtain an H-1B Visa (immigration expenses) for Dincer Koc. Dincer Koc was never employed by Horizon Science Academy-Cincinnati.

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

In accordance with the foregoing facts and pursuant to **Ohio Revised Code Section 117.28**, a finding for recovery for public monies illegally expended is hereby issued against The Fleischer Law Firm, in the amount of $1,800 and in favor of Horizon Science Academy – Cincinnati. The School received a check from Richard Fleischer at Cohn, Todd, Kite & Stanford (The Fleischer Law Firm no longer exists) for $1,800 on September 23, 2008 as repayment.

Officials’ Response:

We did not receive a response from the Officials to this finding.

FINDING NUMBER 2008-002

Finding for Recovery Repaid Under Audit

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.

FINDING NUMBER 2008-002
(Continued)

On February 7, 2008 the Board of Trustees approved Mr. Cafer Cengiz, Director to be reimbursed for up to 60% of tuition (up to $4,320) for the Educational Leadership master program he was attending for his principal licensure. On January 23, 2008, Mr. Cafer Cengiz was reimbursed by check #3895 in the amount of $1,440 for two classes numbered 530 and 532. On March 11, 2008, Mr. Cengiz was reimbursed check #4059 in the amount of $1,440 for two classes numbered 532 and 533. Class 532 in the amount of $720 was reimbursed twice.

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. Cafer Cengiz, Director, in the amount of $720 and in favor of Horizon Science Academy – Cincinnati. The School received a check from Mr. Cafer Cengiz for $720 on October 22, 2008 as repayment.

Officials' Response:

Mr. Cengiz stated he took several classes towards his Principal License in 2007 & 2008 and due to the intensity of the work load at the time he was not aware that he had already been reimbursed for the related course. Unfortunately the Business Manager also did not notice it was a repeated class.

FINDING NUMBER 2008-003

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 2008 contained errors which resulted in numerous reclassifications and adjustments to correctly report the financial activity during and at the end of the year as follows:

Statement of Net Assets/Accumulated Deficit:

- Capital Assets were understated $75,096;
- Accumulated Depreciation was understated $68,187;
- Invested In Capital Assets, Net of Related Debt was overstated $29,072;
- Accumulated Deficit was understated $24,104.

Statement of Revenues, Expenses and Changes in Accumulated Deficit:

- Purchased Services were understated $188,783;
- Depreciation Expense was understated $10,669;
- Contributions and Donations was understated $188,783.

**FINDING NUMBER 2008-003
(Continued)**

Statement of Cash Flows:

- Proceeds of Notes was understated $130,000;
- Payment of Notes was understated $124,061;
- Payment of Interest was understated $5,968;
- Payment for Capital Acquisitions was overstated $3,973;
- Payment of Capital Leases was understated $3,973.

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 2008-004

Noncompliance

Article II (FF) of the Contract for Start-Up Ohio Community School between the School and its' Sponsor, stated 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 fiscal year 2008, the School borrowed $80,000 from Noble Academy. Although this loan was approved by the Board on September 15, 2007, the note prepared was not signed by Noble Academy.

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:

We did not receive a response from the Officials to this finding.

FINDING NUMBER 2008-005

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 year under audit, 20% (6 of 30) of the School's teachers were not 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. This will assist the School in complying with state teaching guidelines by hiring licensed teachers.

Officials' Response:

All of the core subject teachers were licensed. There were only two long term substitute teachers who taught during the school year without license. Both of them had bachelor degrees and were eligible to get substitute teacher licenses. The other four were short term substitute teachers who taught a few days during the school year. A community school may engage non-certificated persons to teach up to twelve hours per week pursuant to Ohio Rev. Code Section 3319.301.

Auditor of State's Conclusion:

The records provided by the School for audit, indicate that six teachers out of thirty tested (100%), were not properly licensed. Of these six teachers, two were full time core teachers who had either no evidence of a license or only a short term substitute license. The other four were unlicensed substitute teachers who all taught in excess of twelve hours per week. Names of unlicensed teachers and related dates were provided to the School on April 30, 2009.

FINDING NUMBER 2008-006

Noncompliance Citation

Ohio Rev. 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:

- 21% (7/34) of employee contracts/salary agreements were not maintained in employee personnel file;
- 26% (26/100) of non-salary employees timesheets were not maintained to support the employees' pay for the pay period;
- Minutes could not be located for the meeting on November 12, 2007;
- 37% (11/30) of teacher personnel files did not include teacher licenses;
- 15% (5/34) of all employee personnel files did not include BCI checks; and

FINDING NUMBER 2008-006
(Continued)

- No employee leave documentation provided support for the one leave payout recorded for the audit period.

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:

All of the employees who did not have a contract were hourly paid employees and substitute teachers. The School Board also did not have a meeting in November 2007. The School Board will take necessary actions in order to avoid such issues in the future.

FINDING NUMBER 2008-007

Material Weakness

The Employment Contract between Horizon Science Academy and Teachers states that in addition to salary amounts the Academy will also provide additional benefits as outlined in the Employee Handbook. HAS commits to provide a stipend of $500 per entry year teacher for being a mentor to them and provides the duties as a mentor. The Academy also commits a bonus of $1,000 if the students in 8th grade pass the OAT Social Studies and 10th Grade OGT Social Studies with 75%. As part of a general bonus policy, the teacher can earn up to 5% bonus at the end of 2007-2008 school year.

For the period ended June 30, 2008, the School paid bonuses totaling $12,741.93. These bonuses were not for reasons outlined in the Teachers Employment Contract, nor were they outlined in the Employee Handbook.

- 10 teachers received a $50 bonus for department heads;
- 14 teachers received a total of $5,818.07 with no supporting documentation;
- 7 employees received a total of $900 for enrollment efforts;
- 4 teachers received a $100 bonus for department heads and grade chairs; and
- The dean of students received a $600 bonus for his performance.

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 35 bonus checks issued, none of the checks had adequate supporting documentation. 14 of the 35 checks (40%) were not approved by the Director and had no supporting documentation. Of the other 21 checks, 19 (54%) of them had no documentation other than a memo indicating the employees listed on the memo were to be paid a bonus, with names and amounts indicated. The remaining two checks (6%) 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:

**FINDING NUMBER 2008-007
(Continued)**

- 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 2008, all the bonuses were paid according to the employee contracts which stated that employees can earn bonuses up to 5% 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.

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 2008-008

Material Weakness

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

- Supporting documentation could not be located for 7 of 40 (18%) expenditures tested; vendors were called to obtain support; and

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

- The School paid $90.85 in sales tax;
- The School paid $3,743.83 of $31,617.52 (debit card - side debit card account) (12%) without supporting documentation;

FINDING NUMBER 2008-008
(Continued)

- The School paid $2,144.55 of $19,363.93 (debit card – main checking account) (11%) without supporting documentation;
- $3,375.79 of $50,981.45 (debit card – both accounts combined) (7%) was paid without itemized receipts, only charge slips;
- 31 of 341 (9%) expenditures tested did not have a purchase order (as required by the Schools' policy manual);and
- 296 of 341 (87%) 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 issue:

- 10 teachers were paid $3,680 with no timesheets or other supporting documentation to support Saturday School pay.

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

- 1 employee was paid $400. No documentation provided to support payout;
- 4 leave forms were presented for audit; and
- An unreliable time clock report of employee leave for 19 of 34 employees was presented for audit.

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 2008-008
(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 through the main checking account and the side debit card account, 7% of the expenditures tested did not have sufficient detail on the supporting documentation to evaluate whether it was for a proper public purpose and 15% 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. During fiscal year 2008, only one employee was paid a leave payout, contradictory to the previous fiscal years; however, this employee's payout had nothing to support the leave balance. Forms were not presented for audit for any leave taken by 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 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.

FINDING NUMBER 2008-009

Material Weakness

For the fiscal year ended June 30, 2008, the School incurred an operating loss in the amount of $577,247, a change in net assets of negative $80,004, negative net working capital of $322,996 and an accumulated deficit of $218,635. 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:

FINDING NUMBER 2008-009
(Continued)

- The School's loan in fiscal year 2008, detailed in Finding 2008-004, was not signed by both parties involved;
- The Board of Trustees did not document approval of closing the debit card bank account;
- 21 of 74 (28%) non-salary employees' timesheets were not approved by Director;
- 7 of 25 (28%) of salaried employees' contracts were not signed by employee or the School;
- 2 of 4 (50%) employees' leave requests were not approved/signed by a supervisor;
- 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;
- $2,880 (2 of 40 tested) in expenditures to reimburse the Director's principal license tuition was paid from Title 1 funds per the School's Profit and Loss Report by Class. If this amount had exceeded $10,000, it would have been a potential federal questioned cost;
- $2,000 (2 of 35 tested) in bonuses paid to Garrett Morris were posted to the 590 Title II-A Fund per the School's records. None of Mr. Morris' payroll, nor any other bonus was posted to the 590 fund. If this amount had exceeded $10,000, it would have been a potential federal questioned cost;
- 28 of 40 (70%) expenditures tested did not have a requisition form (as required by the Schools' policy manual). Of the 12 with requisition forms, 2 were approved by the Director as required by the Schools' policy manual;
- 40 of 40 (100%) expenditures tested did not have a purchase order approved by Director (as required by the Schools' policy manual); and
- 0 of 1 (0%) checks exceeding $5,000 had two signatures (as required by the Board of Trustees).

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.

FINDING NUMBER 2008-009
(Continued)

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 and donations 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. The School plans to increase its enrollment in order to improve its financial standing.

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.

HORIZON SCIENCE ACADEMY - CINCINNATI
HAMILTON COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2008

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2007-001	**Finding for Recovery Repaid Under Audit** – Alcohol purchase	Yes	
2007-002	**ORC 3314.03 (B)(5) and AOS Bulletin 2000-005** – Multiple errors, reclassifications, and adjustments to the financial statements, notes and Management's Discussion and Analysis.	No	Repeat as Finding 2008-003
2007-003	**ORC 149.351(A)** – Destruction of Records	No	Repeat as Finding 2008-006
2007-004	**ORC 3314.03(A)(10)** – failure to have teachers properly licensed.	No	Repeat as Finding 2008-005
2007-005	**ORC 3314.08 and ORC 3314.03** for failure to reconcile Fatal Exception Reports and failure to have a policy.	Yes	
2007-006	**ORC 5705.391(B) –** Failure to prepare and file five-year projections.	Yes	
2007-007	**Material Weakness -** Payment of Bonuses without supporting documentation	No	Repeat as Finding 2008-007
2007-008	**Material Weakness -** Lack of controls over disbursements	No	Repeat as Finding 2008-008
2007-009	**Material Weakness -** Having a material operating loss and accumulated deficit.		Repeat as Finding 2008-009

Note: The 2008 audit was performed concurrently with the 2007 audit.

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

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