



**HORIZON SCIENCE ACADEMY COLUMBUS MIDDLE SCHOOL
FRANKLIN COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2008



Mary Taylor, CPA
Auditor of State

**HORIZON SCIENCE ACADEMY COLUMBUS MIDDLE SCHOOL
FRANKLIN COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion & Analysis	3
Statement of Net Assets	7
Statement of Revenues, Expenses and Changes in Net Assets.....	8
Statement of Cash Flows	9
Notes to the Financial Statements	11
Independent Accountants' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	21

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Horizon Science Academy – Columbus Middle School
Franklin County
1329 Bethel Road
Columbus, Ohio

To the Board of Directors:

We have audited the accompanying financial statements of the Horizon Science Academy – Columbus Middle School, Franklin County, Ohio (the School) as of and for the year ended June 30, 2008, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Horizon Science Academy – Columbus Middle School, Franklin County, Ohio, 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 School is experiencing certain financial difficulties. Those difficulties and management's plan are discussed in Note 19.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 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

February 24, 2009

**HORIZON SCIENCE ACADEMY COLUMBUS MIDDLE SCHOOL
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)**

The discussion and analysis of Horizon Science Academy Columbus Middle School's (the School) financial performance provides an overall review of the financial activities for the School's first fiscal year ended June 30, 2008. Readers should also review the basic 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 deficit net assets were (\$73,728) at June 30, 2008.
- The School had total operating revenues of \$1,004,151
- The School had total non-operating revenue of \$317,993
- The School had total operating expenses of \$1,391,111
- The current liabilities at the end of our first year of operation were \$186,698

Using this Financial Report:

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

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 *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. The School uses enterprise presentation for all of its activities.

The *Statement of Cash Flows* provides information about how the School finances and meets the cash flow needs of its operations. The *Statement of Cash Flows* can be found on page 9 of this report.

**HORIZON SCIENCE ACADEMY COLUMBUS MIDDLE SCHOOL
FRANKLIN COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(CONTINUED)**

Following is a summary of the Academy's net assets for the year ended June 30, 2008:

	2008
Current assets	\$ 28,882
Capital assets	97,883
Total assets	126,765
Current liabilities	186,698
Long term liabilities	13,795
Total liabilities	200,493
Net Assets Invested in Capital Assets, Net of Related Debt	24,233
Unrestricted Net Assets	(97,961)
Net assets	\$ (73,728)

During fiscal year 2008 the Academy's deficit net assets were \$(73,728) primarily due to current liabilities exceeding current assets.

The changes in net assets for the year ended June 30, 2008 is as follows:

	2008
Total Operating Revenues	\$ 1,004,151
Total Operating Expenses	1,391,111
Operation loss	(386,960)
Non Operating Revenues	317,993
Non Operating Expenses	(4,761)
(Loss) before contributions	(73,728)
Change in net assets	(73,728)
Net assets - beginning of year	0
Net assets - end of year	\$ (73,728)

During fiscal year 2008 the change in the Academy's net assets was resulted in a deficit of \$(73,728) primarily due to purchased services and salaries expense.

**HORIZON SCIENCE ACADEMY COLUMBUS MIDDLE SCHOOL
FRANKLIN COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(CONTINUED)**

CAPITAL ASSETS AND CURRENT OBLIGATIONS

Capital assets of \$125,304 were transferred from The Horizon Science Academy-Columbus High School. Other additions of \$32,180 were due to a lease purchase of \$19,950 and cash purchases of \$12,230. Capital Asset deletions were \$5,387 for the fiscal period.

The Middle School borrowed \$100,000 from the High School as a related party operating loan during the period. The entire loan was paid during the fiscal year. A portion of the accounts payable balance of \$56,240 represents the amount still owed the High School for the transfer of assets indicated above.

Budget

Pursuant to the Sponsor's contract with the Governing Authority, the School prepares and adopts an annual budget which includes estimated revenues and expenditures for the fiscal year and a five year forecast of revenues and expenditures. The School will from time to time adopt budget revisions as necessary.

Restrictions and Other Limitations

The future stability of the School is not without challenges. The School does not receive any funds from taxes. The primary source of funding is the state foundation program. An economic slowdown in the state could result in budgetary cuts to education, which would have a negative impact on the School.

Other Information

Management is currently unaware of any known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations.

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 Ben Koz, Business Manager, Horizon Science Academy Columbus Middle School, 1341 Bethel Rd. Columbus, OH 43220.

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**HORIZON SCIENCE ACADEMY COLUMBUS MIDDLE SCHOOL
FRANKLIN COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2008**

Assets

Current Assets

Cash	\$ 13,943
Intergovernmental receivable	14,939
Total Current Assets	<u>28,882</u>

Non-Current Assets:

Depreciable capital assets, net	97,883
Total Non-current Assets	<u>97,883</u>

Total Assets	<u>126,765</u>
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Liabilities

Current Liabilities:

Accounts payable	99,585
Accrued wages	69,894
Payroll liabilities	13,604
Capital leases	3,615
Total Current Liabilities	<u>186,698</u>

Long-Term Liabilities

Capital leases	13,795
Total Long-Term Liabilities	<u>13,795</u>

Total Liabilities	<u>200,493</u>
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Net Assets

Invested in capital assets, net of related debt	24,233
Unrestricted (deficit)	(97,961)
Total net assets	<u>\$ (73,728)</u>

See accompanying notes to the basic financial statements.

**HORIZON SCIENCE ACADEMY COLUMBUS MIDDLE SCHOOL
FRANKLIN COUNTY**

**STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2008**

Operating Revenues

State foundation payments	\$ 978,905
Extracurricular activities	3,308
Food services	11,932
Other local revenue	10,006
Total Operating Revenues	<u>1,004,151</u>

Operating Expenses

Salaries	469,991
Fringe benefits	118,199
Purchased services	643,066
Supplies and materials	67,009
Depreciation expense	54,215
Other expense	38,631
Total Operating Expenses	<u>1,391,111</u>

Operating (loss) (386,960)

Non-Operating Revenue

Federal grants	312,993
State grants	5,000
Total Non-Operating Revenue	<u>317,993</u>

Non-Operating Expenses

Interest	4,761
Total Non-Operating Expenses	<u>4,761</u>

Change in net assets (73,728)

Net assets beginning of year -

Net assets end of year \$ (73,728)

See accompanying notes to the basic financial statements.

**HORIZON SCIENCE ACADEMY COLUMBUS MIDDLE SCHOOL
FRANKLIN COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2008**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash received from state foundation	\$ 978,905
Cash received from other operating revenues	25,245
Cash payments to suppliers for goods and services	(666,728)
Cash payments to employees for services	(400,098)
Cash payments for employee benefits	(104,595)
Other cash payments	<u>(38,631)</u>
Net Cash Used by Operating Activities	<u><u>(205,902)</u></u>

Cash Flows from Non-Capital Financing Activities

Federal grants received	298,054
State grants received	5,000
Horizon Science Academy High School loan proceeds	100,000
Horizon Science Academy High School loan payments	(100,000)
Payments for interest on notes	<u>(4,761)</u>
Net Cash Provided by Non-Capital Financing Activities	<u><u>298,293</u></u>

Cash Flows from Capital and Related Financing Activities:

Payments for capital acquisitions	(75,908)
Payments for capital leases	<u>(2,540)</u>
Net Cash (Used by) Capital and Related Financing Activities	<u><u>(78,448)</u></u>

Net Increase in Cash and Cash Equivalents	13,943
Cash and Cash Equivalents Beginning of Year	-
Cash and Cash Equivalents End of Year	<u><u>\$ 13,943</u></u>

**Reconciliation of Operating Loss to Net Cash
Used by Operating Activities**

Operating/(Loss)	\$ (386,960)
Adjustments:	
Depreciation	54,215
Increase in liabilities:	
Accounts payable	43,345
Payroll liabilities	13,604
Accrued wages	<u>69,894</u>
Net Cash Used by Operating Activities	<u><u>\$ (205,902)</u></u>

Non-Cash Activities

"During the fiscal year, the School received a Capital Asset transfer from the Horizon Science Academy High School for \$125,304. Payments on the Capital Acquisitions are included above for \$69,064, the remainder is included in the accounts payable balance of \$56,240 (non-operating). The School purchased a copier for \$19,950 reported as a capital lease, see note 10.

See accompanying notes to the basic financial statements.

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**HORIZON SCIENCE ACADEMY COLUMBUS MIDDLE SCHOOL
FRANKLIN COUNT**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Horizon Science Academy Columbus Middle School, (the School) is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to address the needs of students in grades six through eight in Columbus. The School used to operate as a part of Horizon Science Academy- Columbus since 1999. The School Board decided to separate high school from middle school in fiscal year 2008. Horizon Science Academy Columbus High School currently continues its education at 1070 Morse Rd. The same Board continues to govern both of the schools for unspecified terms. 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 was approved for operation under contract with Buckeye Community Hope Foundation (the Sponsor) for a period of five years commencing on March 14, 2007.

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 operates under the direction of a self-appointed five-member Board of Directors. 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 20 personnel for up to 160 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, provided those pronouncements do not conflict with or contradict GASB pronouncements. The School elected not to follow (FASB). Following are the more significant of the School District's accounting policies.

A. Basis of Presentation

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

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

B. Measurement Focus and Basis of Accounting

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

**HORIZON SCIENCE ACADEMY COLUMBUS MIDDLE SCHOOL
FRANKLIN COUNT**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting (Continued)

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. The School had no Deferred Revenue. Expenses are recognized at the time they are incurred.

C. Budgetary Process

Unlike traditional public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code section 5705; rather community schools are required to create a Five Year Budget Forecast that is approved by the Board of Directors and submitted to ODE and to the School's Sponsor. The contract between the School and its Sponsor requires the Governing Authority to submit an annual proposed budget.

D. Cash

To improve cash management, all cash received by the School is pooled in a central bank account. Any investment with an original maturity less than 90 days is considered a cash equivalent and any investment with an original maturity greater than 90 days is considered an investment. 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 deletions during the year. Donated capital assets are recorded at their fair market values as of the date received. The School established a capitalization threshold of one hundred dollars for fiscal year 2008. 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. The School does not capitalize interest.

Capital Assets 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	5 to 10 years
Computers and Other Electronic Equipment	3 to 5 years
Vehicles	3 to 10 years

**HORIZON SCIENCE ACADEMY COLUMBUS MIDDLE SCHOOL
FRANKLIN COUNT**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Intergovernmental Revenues

The School currently participates in the State Foundation Program, Special Education Program, and the 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. Amounts awarded under these programs for FY 2008 totaled \$ 978,905.

Grants from State and Federal Governments are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the school must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the school on a reimbursement basis. Amounts awarded under these programs for 2008 school year totaled \$ 317,993.

G. Operating Revenues and Expenses

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

H. Compensated Absences

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. The school also compensates it employees \$100 per day for each unused sick/personal days. There were no Compensated Absences included in the financial statements.

I. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors, or contracts. The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. At the end of the fiscal year ended June 30, 2008 the School did not have any restricted net assets.

J. Estimates

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

**HORIZON SCIENCE ACADEMY COLUMBUS MIDDLE SCHOOL
FRANKLIN COUNT**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Economic Dependency

The School receives the majority of its operating revenue from the Ohio Department of Education. Due to the significance of this revenue source, the School is considered to be economically dependent on the State of Ohio Department of Education.

3. DEPOSITS

Custodial credit risk is the risk that, in the event of bank failure, the School's deposits may not be returned. The School has an investment policy that limits the School's allowable deposits or investments and addresses the specific types of risk to which the School might be exposed. At June 30 2008, the carrying book balance of the School's bank account at National City Bank was \$13,943 and the bank balance was \$48,048. 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			Ending
	July 1, 2007	Additions	Deletions	June 30, 2008
Furniture and Equipment	\$ -	80,898	(5,346)	\$ 75,512
Facility Improvements	-	47,192	-	47,192
Capital Leases	-	19,950	-	19,950
School Vehicle	-	9,444	-	9,444
Total Fixed Assets	-	157,484	(5,386)	152,098
Less: Accumulated Depreciation	-	(54,984)	769	\$54,215
Net Fixed Assets	\$ -	102,500	(4,617)	\$ 97,883

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 writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

**HORIZON SCIENCE ACADEMY COLUMBUS MIDDLE SCHOOL
FRANKLIN COUNT**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(Continued)**

5. DEFINED BENEFIT PENSION PLANS (Continued)

A. School Employees Retirement System (Continued)

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District 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 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

District's required contributions for pension obligations to SERS for the first fiscal year ended June 30, 2008 was \$9,583; 100 percent has been contributed for fiscal year 2008.

B. State Teachers Retirement System

Plan Description - The School District 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.

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.

**HORIZON SCIENCE ACADEMY COLUMBUS MIDDLE SCHOOL
FRANKLIN COUNT**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(Continued)**

5. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

Funding Policy - For the fiscal year June 30, 2008, plan members were required to contribute 10 percent of their annual covered salaries. The School District 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 District's required contribution for pension obligations to STRS for the first fiscal year ended June 30, 2008 was \$50,575; 90 percent has been contributed for fiscal year 2008. The unpaid contribution for fiscal year 2008 is \$5,095.

6. POSTEMPLOYMENT BENEFITS

A. School Employee 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 not available.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School's contribution for health care for the fiscal years ended June 30, 2008 was \$3,861; 100 percent has been contributed for fiscal year 2008.

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 contribution for Medicare Part B for the fiscal years ended June 30, 2008, was \$452; 100 percent has been contributed for fiscal year 2008.

**HORIZON SCIENCE ACADEMY COLUMBUS MIDDLE SCHOOL
FRANKLIN COUNT**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(Continued)**

6. POSTEMPLOYMENT BENEFITS (Continued)

B. State Teachers Retirement System

Plan Description – The School District 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 contributions for health care for the fiscal year ended June 30, 2008, \$3,613; 90 percent has been contributed for fiscal year 2008.

7. RISK MANAGEMENT

The School is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2008, the School contracted with Auto Owners Insurance Company for property coverage for \$2,000,000 of general aggregate with \$1,000,000 for each occurrence. There has been no reduction in coverage over the prior year. There have been no settlements exceeding coverage in the last three years.

8. EMPLOYEE MEDICAL AND DENTAL BENEFITS

According to the School’s 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 contributed by the School while the remaining 40% are deducted from employees’ wages.

9. PURCHASED SERVICES

Purchased service expenses during fiscal year 2008 were as follows:

Purchased Services	
Type	Amount
Professional Services	422,137
Rent and Property Services	161,473
Advertising and Communications	44,142
Pupil Transportation	315
Food Services	10,290
Staff Travel Expenses	4,709
Total	\$ 634,066

**HORIZON SCIENCE ACADEMY COLUMBUS MIDDLE SCHOOL
FRANKLIN COUNT**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(Continued)**

10. CAPITAL LEASES PAYABLE

The School entered into a capitalized lease agreement for a copy machine/printer. The lease meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital assets of \$19,950 have been recorded, which represents the present value of the minimum lease payments at time of acquisition. The accumulated depreciation for the capital lease asset was \$3,325 for the fiscal. Principal payments for fiscal year 2008 totaled \$2,540. The following is a schedule of the future minimum lease payments required for the capital leases as of June 30, 2008.

	Total Payment	Interest	Principal
2009	4,794	1,179	3,615
2010	4,794	899	3,895
2011	4,794	598	4,196
2012	4,794	274	4,520
2013	1,199	15	1,184
Total Lease Payments	\$ 20,375	\$ 2,965	\$ 17,410

11. OPERATING LEASES

The School entered into a sub-lease agreement with Horizon Science Academy- Columbus High School in fiscal year 2008 for school facilities at 1341 Bethel Rd for two years, until the end of the lease agreement between Horizon Science Academy-Columbus High School and the owner of the facilities, B&A Realities. According to the agreement the School pays a monthly rent of \$9,500. In fiscal year 2008, the School paid a total of \$99,750.

12. 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 School is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The FTE review has been conducted for fiscal year 2008 but was not a material obligation and therefore not included in the financial statements.

**HORIZON SCIENCE ACADEMY COLUMBUS MIDDLE SCHOOL
FRANKLIN COUNT**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(Continued)**

13. INTERGOVERNMENTAL RECEIVABLE

Receivables at June 30, 2008 consisted of intergovernmental receivables due to Federal Title Grants of \$14,939. All intergovernmental receivables are considered collectable in full.

14. NOTE PAYMENT

In August 2007, the School entered into loan agreement with Horizon Science Academy- Columbus in the amount of \$100,000 with an annual interest rate of 8.25% for the purpose of paying the School's operating expenses. The principal of the loan and incurred interest of \$4,761 were paid during the fiscal year.

15. ACCOUNTS PAYABLE

Accounts payable at June 30, 2008 totaled \$99,585. Out of this amount, \$56,240 was due to capital asset related party transfer from the Horizon Science Academy- Columbus High School. \$24,090 was unpaid management fees. The rest of the account payables were to several other vendors.

16. SPONSORSHIP AGREEMENT

On March 14, 2007, the School signed a sponsorship agreement with Buckeye Community Hope Foundation (the Sponsor). The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. According to the contract, the School pays 3% of its foundation revenues to the Sponsor. In fiscal year 2008, the School's compensation to the Sponsor was \$26,343.

17. MANAGEMENT COMPANY AGREEMENT

The School contracted with Concepts Schools Inc. 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 total management fees paid to Concept Schools in fiscal year 2008 was \$73,800. At June 30, 2008, the remaining \$24,089 was included in accounts payable.

18. RELATED PARTY TRANSACTIONS

In the process of the split from the Horizon Science Academy – Columbus High School; \$125,304 of capital assets net of accumulated depreciation was transferred to the Middle School. During the year the School also purchased employee services of \$285,853 from the High School. The High School also provided a start up loan to the Middle School in the amount of \$100,000 for its operating expenses. The School paid the amount due by the end of the fiscal year.

**HORIZON SCIENCE ACADEMY COLUMBUS MIDDLE SCHOOL
FRANKLIN COUNT**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
(Continued)**

19. MANAGEMENT'S PLAN

At June 30, 2008, the School recorded an operating loss of \$386,960 and deficit net assets of \$73,728.

The School's management plans to overcome this deficit by increasing its enrollment in the future years. The School's cash balance as of February 24, 2009 was \$4,797 and the enrollment had increased to 170 students from 160 students in fiscal year 2008. The 2009 budget projects a \$26,652 positive cash balance at June 30, 2009.

20. SUBSEQUENT EVENT

On January 17, 2009, the Board of Directors approved a \$300,000 start up grant approved by the State of Ohio.



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 – Columbus Middle School
Franklin County
1329 Bethel Road
Columbus, Ohio

To the Board of Directors:

We have audited the financial statements of Horizon Science Academy – Columbus Middle School, Franklin County, Ohio (the School) as of and for the year ended June 30, 2008, and have issued our report thereon dated February 24, 2009, wherein we noted the School was experiencing certain 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.

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.

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 internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted certain matters that we reported to the School's management in a separate letter dated February 24, 2009.

Compliance and Other Matters

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain noncompliance or other matters that we reported to the School's management in a separate letter dated February 24, 2009.

We intend this report solely for the information and use of management, the Board of Directors and Buckeye Community Hope Foundation. We intend it for no one other than these specified parties.

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

February 24, 2009



Mary Taylor, CPA
Auditor of State

HORIZON SCIENCE ACADEMY – COLUMBUS MIDDLE SCHOOL
FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
APRIL 7, 2009