

FINANCIAL STATEMENTS

For

Year Ended June 30, 2008



Horizon Science Academy- Columbus

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Mary Taylor, CPA
Auditor of State

Members of the Board
Horizon Science Academy of Columbus
1070 Morse Road
Columbus, Ohio 43229-6290

We have reviewed the *Independent Auditor's Report* of the Horizon Science Academy of Columbus, Franklin County, prepared by Kennedy Cottrell Richards LLC, for the audit period July 1, 2007 through June 30, 2008. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Horizon Science Academy of Columbus is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 6, 2009

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HORIZON SCIENCE ACADEMY - COLUMBUS

FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT

Members of the Board
Horizon Science Academy of Columbus

We have audited the accompanying financial statements of the enterprise fund of Horizon Science Academy of Columbus, Franklin County, Ohio (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 School 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 enterprise fund of the School as of June 30, 2008, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

The management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. 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.



Kennedy Cottrell Richards
February 24, 2009

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**HORIZON SCIENCE ACADEMY- COLUMBUS
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'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 \$7,454, from \$159,717 to \$152,263
- The School had total operating revenues of \$2,122,994
- The School had total operating expenses of \$2,826,518
- The current liabilities decreased by \$221,896
- The School recorded a loss on disposal of fixed assets for \$1,905
- The School received Federal and State Grants total of \$495,772.

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.

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, Inc. 1070 Morse Rd. Columbus, OH 43229.

**HORIZON SCIENCE ACADEMY- COLUMBUS
FRANKLIN COUNTY**

Table 1 provides a comparison of School's net assets in fiscal years in 2007 and 2008.

Net Assets	June 30, 2007	June 30, 2008
ASSETS		
Current Assets		
Cash and Cash Equivalents	86,925	38,040
Accounts Receivable	0	71,264
Intergovernmental Receivable	112,586	25,818
Total Current Assets	199,511	135,122
Non-Current Assets		
Security Deposit	43,375	43,375
Capital Assets (Net of Accumulated Depreciation)	498,990	326,690
Total Non-Current Assets	542,365	370,065
Total Assets	741,876	505,187
LIABILITIES & EQUITY		
Current Liabilities		
Accounts Payable	137,983	82,359
Intergovernmental Payable	71,922	45,424
Capital Leases- Current	26,530	20,712
Accrued Wages	252,325	129,826
Payroll Liabilities	21,396	25,030
National City- Line of Credit	45,062	29,969
Total Current Liabilities	555,216	333,320
Long Term Liabilities		
Capital Leases- Long Term	26,943	19,604
Total Long Term Liabilities	26,943	19,604
Total Liabilities	582,159	352,924
NET ASSETS		
Investment in Capital Assets	498,990	286,374
Restricted	43,375	43,375
Unrestricted	(382,648)	(177,486)
Total Net Assets	\$ 159,717	\$ 152,263

**HORIZON SCIENCE ACADEMY- COLUMBUS
FRANKLIN COUNTY**

Table 2 provides a comparison of School's Revenues & Expenses and Changes in Net Assets in fiscal years in 2007 and 2008.

Revenues, Expenses and Changes in Net Assets

	<u>June 30, 2007</u>	<u>June 30, 2008</u>
<u>Operational Income/Expense</u>		
Income		
Foundation Payments	3,589,647	2,044,305
Instructional Fees	18,459	12,369
Extracurricular Activities	12,280	8,297
Food Services	20,453	13,503
Other Local Revenue	<u>62,089</u>	<u>44,520</u>
Total Operational Income	3,702,928	2,122,994
Expense		
Salaries	2,031,101	1,309,621
Benefits	463,396	301,477
Purchased Services	1,492,755	930,375
Supplies & Materials	234,931	148,606
Other Objects	67,218	67,231
Depreciation Expense	<u>111,127</u>	<u>69,208</u>
Total Operational Expense	4,400,529	2,826,518
Net Operational Income	(697,601)	(703,524)
<u>Non-Operational Income/Expense</u>		
Federal Grants	573,736	466,490
State Grants	8,564	29,282
Contributions and Donations	3,494	5,344
Interest on Investments	0.00	4,762
Rent Forgiveness	0.00	81,648
Management Fee Forgiveness	230,814	116,318
Loss on Disposal of Assets	(3,593)	(1,905)
Interest Payments	<u>(7,093)</u>	<u>(5,869)</u>
Net Non-Operational Income	805,923	696,070
Change in Net Assets	108,322	(7,454)
Net Assets at Beginning of Year	51,395	159,717
Net Assets at End of Year	\$ <u>159,717</u>	<u>152,263</u>

The decrease in revenues and expenses in fiscal year 2008 is due to the split of Middle School from Horizon Science Academy- Columbus. As a result, number of enrollment decreased from 550 to 330 in 2008. Middle School section continues its education under a separate charter as Horizon Science Academy- Columbus Middle School at Bethel Rd. facilities.

**HORIZON SCIENCE ACADEMY- COLUMBUS
FRANKLIN COUNTY**

Table 3 shows the distribution of revenues in Fiscal Year 2008.

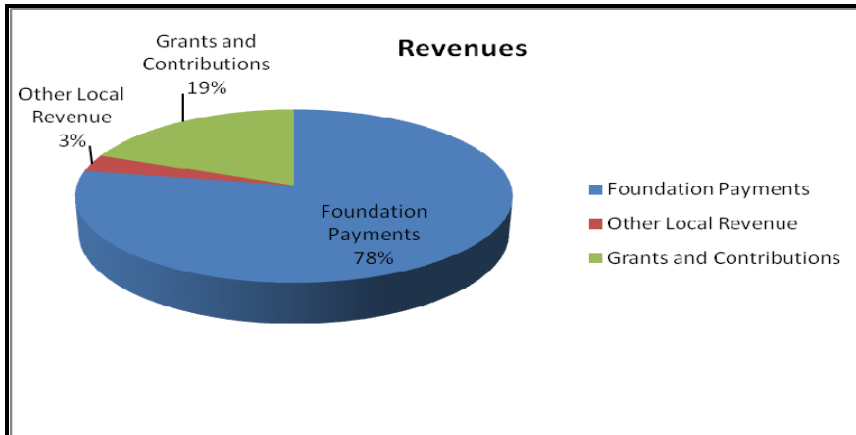
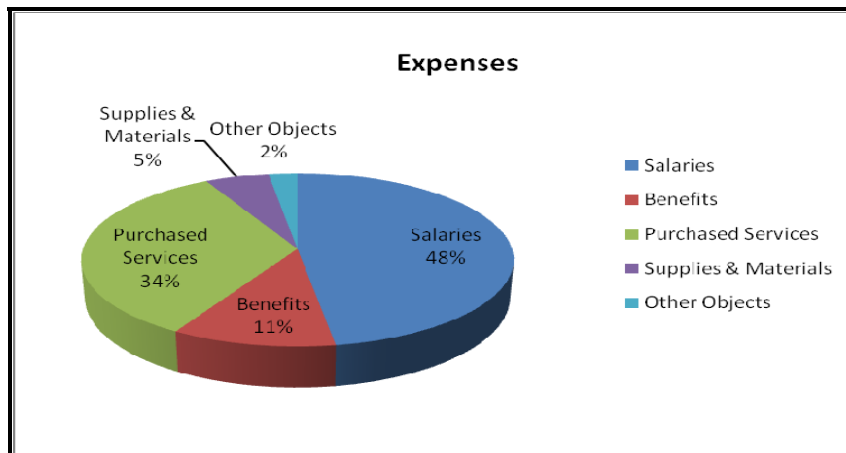


Table 4 shows the distribution of expenses in Fiscal Year 2008.



Capital Assets

At fiscal year-end, the School had \$326,690 in capital assets, net of accumulated depreciation, a \$172,300 decrease from the previous year. This decrease represents the amount by which current year depreciation (\$69,208) and current year net disposals (\$127,208) exceeded capital asset additions (\$24,116). Detailed information regarding capital asset activity is included in the notes to the basic financial statements. See Note 4 for more detailed capital asset information.

HORIZON SCIENCE ACADEMY- COLUMBUS
FRANKLIN COUNTY

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

ASSETS

Current Assets

Cash and Cash Equivalents	38,040
Intergovernmental Receivable	25,818
Accounts Receivable	71,264
Total Current Assets	135,122

Non-Current Assets

Security Deposit	43,375
Capital Assets (Net of Accumulated Depreciation)	326,690
Total Non-Current Assets	370,065

Total Assets	505,187
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LIABILITIES & EQUITY

Current Liabilities

Accounts Payable	82,359
Intergovernmental Payable	45,424
Capital Leases- Current	20,712
Accrued Wages	129,826
Payroll Liabilities	25,030
National City- Line of Credit	29,969
Total Liabilities	333,320

Long Term Liabilities

Capital Leases- Long Term	19,604
Total Long Term Liabilities	19,604

Total Liabilities	352,924
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NET ASSETS

Investment in Capital Assets	286,374
Restricted	43,375
Unrestricted	(177,486)
Total Net Assets	\$ 152,263

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

HORIZON SCIENCE ACADEMY- COLUMBUS
FRANKLIN COUNTY

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

<u>Operational Income/Expense</u>	
Income	
Foundation Payments	2,044,305
Instructional Fees	12,369
Extracurricular Activities	8,297
Food Services	13,503
Other Local Revenue	44,520
Total Operational Income	2,122,994
Expense	
Salaries	1,309,621
Benefits	301,477
Purchased Services	930,375
Supplies & Materials	148,606
Other Objects	67,231
Depreciation Expense	69,208
Total Operational Expense	2,826,518
Net Operational Income	(703,524)
<u>Non-Operational Income/Expense</u>	
Federal Grants	466,490
State Grants	29,282
Contributions and Donations	5,344
Interest on Investments	4,762
Rent Payable Forgiveness	81,648
Management Fee Forgiveness	116,318
Loss on Disposal of Assets	(1,905)
Interest Payments	(5,869)
Net Non-Operational Income	696,070
Change in Net Assets	(7,454)
Net Assets at Beginning of Year	159,717
Net Assets at End of Year	\$ <u>152,263</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENT

**HORIZON SCIENCE ACADEMY- COLUMBUS
FRANKLIN COUNTY**

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

Cash Flows from Operating Activities

Cash Received from State of Ohio	2,017,807
Cash Received from Other Operating Revenues	78,689
Cash Payments to Suppliers for Goods and Services	(875,625)
Cash Payments to Employees for Services	(1,502,646)
Cash Payments for Employee Benefits	(317,830)
Other Cash Payments	(73,599)
Net Cash Used for Operating Activities	(673,204)

Cash Flows from Noncapital Financial Activities

Grants Received from Federal Gov	567,734
Grants Received from State	29,282
Contributions and Donations	5,344
Loan Disbursement to HSA- Col. Middle Sch.	(100,000)
Proceeds from Loan to HSA- Col. Middle Sch.	100,000
Line of Credit Payments	(15,092)
Interest Payments	(5,869)
Interest from Notes Receivable	4,762
Net Cash Provided by Noncapital Financial Activities:	586,161

Cash Flows from Capital and Related Activities

Sale of Capital Assets	69,064
Payments for Capital Acquisitions	(4,166)
Payments for Capital Leases	(26,741)
Net Cash Provided by Capital and Related Activities	38,157

Net Increase in Cash and Cash Equivalents **(48,886)**

Cash and Cash Equivalents at Beginning of Year **86,926**

Cash and Cash Equivalents at End of Year **38,040**

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

HORIZON SCIENCE ACADEMY- COLUMBUS
FRANKLIN 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	(703,524)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities	
Depreciation	69,208
Changes in Assets and Liabilities	
Decrease in Accounts Payable	(55,624)
Increase in Payroll Liabilities	3,634
Decrease in Wages Payable	(122,499)
Decrease in IG Payable	(26,498)
Decrease in Accounts Receivable	45,781
Management Fee Forgiveness	116,318
Total Adjustments	<u>30,320</u>
Net Cash Used for Operating Activities	<u><u>(673,204)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HORIZON SCIENCE ACADEMY- COLUMBUS
FRANKLIN COUNTY**

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

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Horizon Science Academy- Columbus, Inc. (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 twelve in Columbus. In July 2008, middle school grades were split from the School under a new charter for Horizon Science Academy Columbus Middle School. The School currently continues its operation as a high school for grades nine through twelve. The School, which is part of the State's education program, is independent of any School and is nonsectarian in its programs, admission policies, employment practices, and all other operations.

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

The School was initially approved for operation in August 1999 under a charter with Ohio Department of Education which expired on June 30, 2004. The School is currently under contract with Lucas County Educational Service Center (the Sponsor) until May 30 2012.

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 42 personnel for up to 330 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

The School's basic financial statements consist of a Statement of Net Assets; 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.

**HORIZON SCIENCE ACADEMY- COLUMBUS
FRANKLIN COUNTY**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting

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 meets the cash flow needs for 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. Unearned 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 unearned 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. 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.

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 five 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. Furniture, fixtures, vehicles and equipment are depreciated using the straight-line method over the following estimated useful lives.

Improvements	3 to10 years
Heavy Duty Office or Classroom Furniture	10 years
Computers and Other Electronic Equipment	3-5 years
Vehicles	3 to 10 years

**HORIZON SCIENCE ACADEMY- COLUMBUS
FRANKLIN COUNTY**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Capital Assets and Depreciation (Continued)

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.

F. Intergovernmental Revenues

The School currently participates in the State Foundation Program, Special Education Program, and the 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. Amounts awarded under these programs for FY 2008 totaled \$ 2,044,305.

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. Amounts awarded under these programs for 2008 school year totaled \$ 466,490.

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 leave 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. This compensation for the fiscal year was recorded under accrued wages.

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 only \$43,375 of schools assets was restricted.

**HORIZON SCIENCE ACADEMY- COLUMBUS
FRANKLIN COUNTY**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Use of 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

At June 30 2008, the carrying book balance of the School's bank account at National City Bank was \$38,040 and the bank balance was \$41,538. Entire bank balance was covered by federal depository insurance. 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				
	Initial Balance June 30, 2007	Additions	Deletions	Ending Balance June 30, 2008
Instructional Equipment & Furniture	276,370	19,950	115,123	181,197
Office Equipment & Furniture	204,577		48,254	156,323
Vehicles	23,982		12,702	11,280
Leasehold Improvements	543,598	4,166	323,723	224,041
Total Fixed Assets	<u>1,048,527</u>	<u>24,116</u>	<u>499,802</u>	<u>572,841</u>
Less: Accumulated Depreciation	(549,537)	(69,208)	(372,594)	(246,151)
Net Fixed Assets	\$498,990	(45,092)	127,208	\$326,690

The asset deletions occurred due to the split of Middle School from Horizon Science Academy-Columbus. Horizon Science Academy Columbus Middle School continues its operation for grades six through eight at Bethel Rd. facilities under a new charter with Buckeye Hope Foundation. The total net of depreciation values of the assets and leasehold improvements sold to the Middle School was \$127,208. HSA- Columbus Middle School paid \$69,064 of this amount during the fiscal year and \$56,240 was recorded under accounts receivable.

5. SECURITY DEPOSIT

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

**HORIZON SCIENCE ACADEMY- COLUMBUS
FRANKLIN COUNTY**

6. 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.

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 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 was \$26,855, \$28,124, and \$22,734 respectively; 96 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 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.

**HORIZON SCIENCE ACADEMY- COLUMBUS
FRANKLIN COUNTY**

6. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (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 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's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007, and 2006 were \$213,011, \$260,579, and \$221,933 respectively; 100 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2008, three members of the Board of Education have elected Social Security. The contribution rate is 6.2 percent of wages.

7. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description – The School District 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.

**HORIZON SCIENCE ACADEMY- COLUMBUS
FRANKLIN COUNTY**

7. POSTEMPLOYMENT BENEFITS (Continued)

A. School Employees Retirement System (Continued)

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 \$3,029.

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 District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$8,018, \$6,669, and \$7,902 respectively; 100 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

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 District's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 were \$1,266, \$1,326, and \$1,072 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 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 District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$15,215, \$18,613, and \$15,852 respectively; 100 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

**HORIZON SCIENCE ACADEMY- COLUMBUS
FRANKLIN COUNTY**

8. 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 with a \$2,060,500 limit, Business Income and Extra Expense per Location coverage with \$450,000 limit and general liability coverage with a \$2,000,000 limit. Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in insurance coverage from the last fiscal year.

9. 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.

10. PURCHASED SERVICES

Purchased service expenses during fiscal year 2008 were as follows:

Type	Amount
Professional Services	366,566
Rent and Property Services	509,704
Advertising and Communications	30,921
Pupil Transportation	10,910
Staff Travel Expenses	5,385
Other Purchased Services	<u>6,889</u>
Total	\$930,375

11. CAPITAL LEASES - LESSEE DISCLOSURE

During current and prior years, the School entered into several capitalized lease agreements for equipment. The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital assets of \$109,858 have been recorded, which represents the present value of the minimum lease payments at time of acquisition. The accumulated depreciation for the capital lease assets was \$62,546 at June 30, 2008. Principal payments for fiscal year 2008 totaled \$26,741. The following is a schedule of the future minimum lease payments required for the capital leases as of June 30, 2008.

**HORIZON SCIENCE ACADEMY- COLUMBUS
FRANKLIN COUNTY**

11. CAPITAL LEASES - LESSEE DISCLOSURE (Continued)

	Lease Payments	Interest	Principal
2009	23,307	2,595	20,712
2010	10,727	1,023	9,704
2011	4,794	598	4,196
2012	4,794	274	4,520
2013	1,199	15	1,184
Total Lease Payments	\$ 44,821	\$ 4,505	\$ 40,316

12. LINE OF CREDIT

The School entered into a promissory note for a line of credit with National City Bank during fiscal year 2006 in the amount of \$50,000. The School must make minimum interest payments each month. The interest rate is tied to the prime rate and re-indexed as this rate moves. As of June 30, 2008, the School interest rate on the loan was 7 percent and the amount due was \$29,969.

13. OPERATING LEASES

The School entered into an operating lease with B&A Realty in fiscal year 1999 for school facilities at 1329 Bethel Rd. On June 30, 2003, the School renegotiated the lease agreement. The new six year lease includes an annual 4% increase that management considers to be a normal cost of living. In fiscal year 2008, the school's monthly rent for three buildings on Bethel Rd. was \$18,177. Required payments for the lease are as follows:

<u>Fiscal year ending</u>	<u>Amount to be paid</u>
June 30, 2009	226,845

In fiscal year 2004, the School also entered into a lease agreement for school facilities on 1070 Morse Road with Breeze Inc. for three years. Later, the lease was extended until June 30, 2009 with an annual 4% increase. In June 2008 the lease was extended for ten more years until June 30, 2018. Breeze Inc. also agreed to forgive unpaid rent fees from fiscal year 2006 in total of \$81,848. This write-off has been shown in the financial statements as "Rent Payable Forgiveness". In fiscal year 2008 the school's monthly rent for facilities on Morse Rd. was \$33,748. Required payments for the lease are as follows:

<u>Fiscal year ending</u>	<u>Amount to be paid</u>
June 30, 2009	421,175
June 30, 2010	438,022
June 30, 2011	455,543

Also, in August 2007 the School subleased its facilities on Bethel Road to Horizon Science Academy- Columbus Middle School and Noble Academy- Columbus for two years. The contracted lease amount for each school is \$9,500 per month. In fiscal year 2008, from both schools, the School received a total of \$214,500. The School expects to receive \$228,000 from these sublease agreements in fiscal year 2009.

**HORIZON SCIENCE ACADEMY- COLUMBUS
FRANKLIN COUNTY**

14. 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 2007 showed the school was overpaid by \$71,922 which was to be deducted from School's Foundation payments in fiscal years 2008 and 2009. In fiscal year 2008, \$26,497 of this amount has been deducted and rest will be deducted in fiscal year 2009. The audit for 2008 showed an underpayment of \$1,698. The School received this amount in November 2008.

15. PLANS FOR IMPROVEMENT OF FINANCIAL STANDING OF THE SCHOOL

The School's management plans to increase enrollment by 20 students and cut off payroll expenses by 4% for 2009-2010 school year in order to improve the School's financial situation. We believe HSA- Columbus Elementary School, which started its education with over 200 students at 2835 Morse Rd. in August 2008 and HSA- Columbus Middle School which will also move to Morse Road in August 2009 with 250 students will reinforce the school's enrollment.

16. 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 2, 2007 the original contract was extended until July 1, 2012. 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 schools compensation to the Sponsor was \$20,178.

**HORIZON SCIENCE ACADEMY- COLUMBUS
FRANKLIN COUNTY**

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 incurred in fiscal year 2008 was \$201,781. Out of this amount, \$9,972 was paid during the year, \$75,490 was deducted due to salaries of two employees and \$116,318 has been forgiven.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Members of the Board
Horizon Science Academy of Columbus

We have audited the financial statements of the enterprise fund of the Horizon Science Academy of Columbus, Franklin County, Ohio (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 February 24, 2009. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion 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 the normal course of 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 generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School's internal control.

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 deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Independent Auditor's Report on Internal Control
Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards*
Page 2

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

This report is intended solely for the information and use of management, members of the School's Board, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Kennedy Cottrell Richards LLC". The signature is written in a cursive, flowing style.

Kennedy Cottrell Richards
February 24, 2009

**HORIZON SCIENCE ACADEMY- COLUMBUS
FRANKLIN COUNTY**

SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

<u>Finding Number</u>	<u>Finding Summary</u>	Fully Correct, Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2007-01	Material Noncompliance / Material Weakness – Period of Availability of Federal Awards	Partially Corrected

In fiscal year 2008 the School's federal expenditures were less than \$500,000 and thus a single audit was not required. However, in fiscal year 2007, the School was required to have a single audit, which contained the finding noted above.



Mary Taylor, CPA
Auditor of State

HORIZON SCIENCE ACADEMY OF COLUMBUS
FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
APRIL 16, 2009