



Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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HORIZON SCIENCE ACADEMY - DAYTON
MONTGOMERY COUNTY

REGULAR AUDIT

For the Year Ended June 30, 2012
Fiscal Year Audited Under GAGAS: 2012



Dave Yost • Auditor of State

Board of Directors
Horizon Science Academy Dayton
4751 Sue Ann Blvd
Dayton, Ohio 45415

We have reviewed the *Independent Auditor's Report* of the Horizon Science Academy Dayton, Montgomery County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2011 through June 30, 2012. 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 Dayton is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

February 26, 2013

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HORIZON SCIENCE ACADEMY - DAYTON
YEAR ENDED JUNE 30, 2012

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Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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Independent Auditor's Report

Members of the Board
Horizon Science Academy - Dayton
Montgomery County
4751 Sue Ann Boulevard
Dayton, Ohio 45415

We have audited the accompanying financial statements of the business-type activities of Horizon Science Academy - Dayton, Montgomery County, Ohio, (the School), as of and for the year ended June 30, 2012, 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 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 business-type activities of Horizon Science Academy - Dayton, Montgomery County, Ohio, as of June 30, 2012, and the change in financial position and cash flows 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 December 7, 2012, 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 do 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. The 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.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

Balestra, Harr & Scherer, CPAs
Balestra, Harr & Scherer, CPAs, Inc.
December 7, 2012

**HORIZON SCIENCE ACADEMY- DAYTON
MONTGOMERY COUNTY**

**MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

The discussion and analysis of Horizon Science Academy - Dayton’s (the School) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2012. 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 2012 are as follows:

- Total net assets decreased by \$162,775 from \$241,405 to \$78,630
- The School had total operating revenues of \$1,146,219
- The School had total operating expenses of \$1,752,208
- The School’s total liabilities increased by \$9,699
- The School received Federal and State Grants totaling of \$443,214

In the fiscal year ended June 30, 2012, the School recorded a loss of \$162,775 mainly because of the low enrollment. During the fiscal year, the School’s average enrollment was 154, which was 4 students less than previous year’s enrollment. The School started the 2012 – 2013 school year with an enrollment of 150 students in grades K - 4 in its new facility next to Horizon Science Academy Dayton High School. The facility was renovated by New Plan Learning, which is an Ohio based non-profit organization that acquires and manages school facilities for community schools and subleased by the School from Horizon Science Academy Dayton High School.

Using this Financial Report:

This annual report consists of three parts; Management’s Discussion and Analysis, the Financial Statements and Notes to the Financial Statements. The Financial Statements part includes a *Statement of Net Assets*, a *Statement of Revenues, Expenses and Changes in Net Assets* and a *Statement of Cash Flows*.

These statements report the School’s net assets and changes to 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 result of many factors, some financial, some not. Non-financial factors included the School’s student enrollment, per-pupil funding as determined by State of Ohio, change in technology, required programs and other factors.

The *Statement of Net Assets and Statement of Revenues, Expenses and Change in Net Assets* reflect how *the School* performed financially *during the fiscal year*. These statements include all assets and liabilities using the accrual basis of accounting which is similar to the accounting method used by most private-sector companies. This basis of accounting includes all the current year revenues and expenses regardless of when cash is received or paid. These statements can be found on pages 7 and 8 of this report.

**HORIZON SCIENCE ACADEMY- DAYTON
MONTGOMERY COUNTY**

**MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

The *Statement of Cash Flows* provides information about how the School financed and met the cash flow needs for its operations during the fiscal year. The School uses enterprise presentation for all its activities. The *Statement of Cash Flows* can be found on page 9 and 10 of this report.

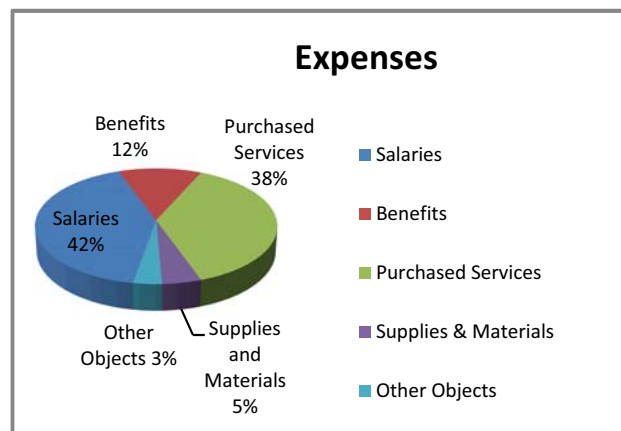
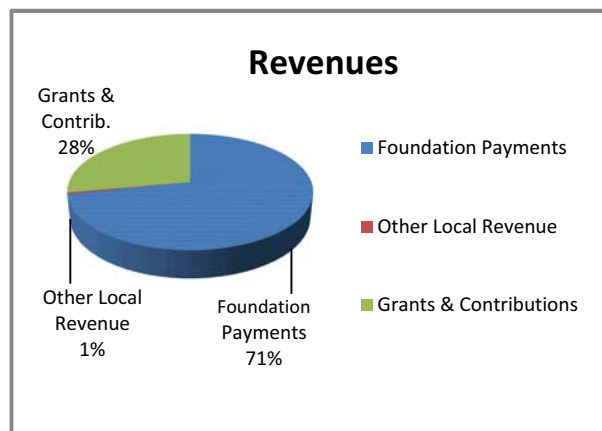
The following table provides a comparison of the School’s Net Assets in fiscal years 2012 and 2011.

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Assets		
Cash	\$ 40,877	\$ 178,369
Other Current Assets	86,850	131,526
Capital Assets	92,273	63,181
Total Assets	\$ 220,000	\$ 373,076
Liabilities		
Current Liabilities	\$ 136,066	\$ 120,225
Long Term Liabilities	5,304	11,446
Total Liabilities	141,370	131,671
Net Assets	\$ 78,630	\$ 241,405

Net assets decreased by \$162,775, which corresponds to a 67% decrease. The School’s cash reserves also diminished by 77%. In order to close the gap in the budget, the School used its cash reserves. The main reason for the loss was low enrollment. During the year, the School also received \$25,000 from HSA- Dayton Downtown for the remaining balance of the note receivable from previous year.

The Statement of Revenues, Expenses and Changes in Net Assets:

The *Statement of Revenues, Expenses and Change in Net Assets* shows the operating and non-operating activities took place during the fiscal year. The following charts are a summary of the School’s Revenues and Expenses for the fiscal year ended June 30, 2012.



**HORIZON SCIENCE ACADEMY- DAYTON
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

The following table is a summary of the *Statement of Revenues, Expenses and Change in Net Assets* for fiscal years 2012 and 2011.

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
<u>Operational Income/Expense</u>		
Income		
Foundation Payments	\$ 1,139,134	\$ 1,092,588
Other Local Revenue	7,085	30,454
Total Operational Income	<u>1,146,219</u>	<u>1,123,042</u>
Expense		
Salaries	711,930	665,191
Benefits	208,966	184,576
Purchased Services	647,151	640,935
Supplies & Materials	81,425	87,912
Other Objects	59,590	32,353
Depreciation Expense	43,146	83,206
Total Operational Expense	<u>1,752,208</u>	<u>1,694,173</u>
Net Operational Loss	<u>(605,989)</u>	<u>(571,131)</u>
<u>Non-Operational Income/Expense</u>		
Federal Grants	439,982	544,549
State Grants	3,232	7,951
Net Non-Operational Income	<u>443,214</u>	<u>552,500</u>
<u>Net Assets</u>		
Change in Net Assets	(162,775)	(18,631)
Net Assets at Beginning of Year	<u>241,405</u>	<u>260,036</u>
Net Assets at End of Year	<u>\$ 78,630</u>	<u>\$ 241,405</u>

In fiscal year 2012, foundation revenues increased by 4% although the enrollment slightly decreased. The increase is partly because of the re-installment of SFSF (State Fiscal Stabilization Fund) funds which were available for previous two fiscal years back to the State budget. Federal grants dropped by 19% due to the same reason. Salaries increased by 7% and benefits 13%, due to the hiring of 2 more teachers in order to decrease the student teacher ratio for a higher academic achievement. Depreciation expense also dropped significantly by 48%. In the fiscal year, the School also received \$63,879 from the last phase of the federal Foreign Language Assistance Program (FLAP) grant. The School administration expects to balance the budget by increasing the enrollment in the future years with the help of brand new facilities and a gymnasium. During the fiscal year, the School also purchased \$72,238 worth of capital assets such as school furniture and electronic equipment.

**HORIZON SCIENCE ACADEMY- DAYTON
MONTGOMERY COUNTY
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

Capital Assets:

As of June 30, 2012, the School had \$92,273 invested in capital assets such as school furniture, office equipment and electronic equipment net of accumulated depreciation. The following table is a summary of Capital Assets as of June 30, 2012.

Capital Assets				
	Beginning June 30, 2011	Additions	Deletions	Ending June 30, 2012
Instructional Furniture & Equipment	\$ 264,613	\$ 72,238	\$ 170,376	\$ 166,475
Office Furniture & Equipment	16,515	-	9,110	7,405
Improvements	22,174	-	22,174	-
Total Fixed Assets	303,302	72,238	201,660	173,880
Less: Accumulated Depreciation	(240,121)	(43,146)	201,660	(81,607)
Net Fixed Assets	\$ 63,181	\$ 29,092	\$ -	\$ 92,273

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 Ryan Uysaler, Treasurer by mail at Concept Schools South Ohio Regional Office, 2356 Morse Rd. Columbus, OH 43235 or by phone at 614-428-7656.

**HORIZON SCIENCE ACADEMY- DAYTON
MONTGOMERY COUNTY**

**Statement of Net Assets
As of June 30, 2012**

	<u>June 30, 2012</u>
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 40,877
Intergovernmental Receivable	72,971
Accounts Receivable	13,879
Total Current Assets	127,727
Non-Current Assets	
Capital Assets (Net of Accumulated Depreciation)	92,273
Total Non-Current Assets	92,273
Total Assets	\$ 220,000
LIABILITIES & EQUITY	
Current Liabilities	
Accounts Payable	\$ 43,176
Intergovernmental Payable	14,829
Accrued Wages	48,426
Payroll Liabilities	23,493
Capital Leases- Current	6,142
Total Current Liabilities	136,066
Long Term Liabilities	
Capital Leases- Long Term	5,304
Total Long Term Liabilities	5,304
Total Liabilities	141,370
NET ASSETS	
Investment in Capital Assets, Net of Related Debt	80,827
Unrestricted	(2,197)
Total Net Assets	\$ 78,630

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HORIZON SCIENCE ACADEMY- DAYTON
MONTGOMERY COUNTY**

**Statement of Revenues, Expenses
and Change in Net Assets
For the Fiscal Year Ended June 30, 2012**

	<u>June 30, 2012</u>
<u>Operational Income/Expense</u>	
Income	
Foundation Payments	\$ 1,139,134
Other Local Revenue	7,085
Total Operational Income	<u>1,146,219</u>
Expense	
Salaries	711,930
Benefits	208,966
Purchased Services	647,151
Supplies & Materials	81,425
Other Objects	59,590
Depreciation Expense	43,146
Total Operational Expense	<u>1,752,208</u>
Net Operational Loss	<u>(605,989)</u>
<u>Non-Operational Income/Expense</u>	
Federal Grants	439,982
State Grants	3,232
Net Non-Operational Income	<u>443,214</u>
<u>Net Assets</u>	
Change in Net Assets	(162,775)
Net Assets at Beginning of Year	<u>241,405</u>
Net Assets at End of Year	<u>\$ 78,630</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HORIZON SCIENCE ACADEMY- DAYTON
MONTGOMERY COUNTY**

**Statement of Cash Flows
For Fiscal Year Ended June 30, 2012**

	<u>June 30, 2012</u>
Cash Flows from Operating Activities	
Cash Received from State of Ohio	\$ 1,153,963
Cash Received from Other Operating Revenues	7,085
Cash Payments to Suppliers for Goods and Services	(754,207)
Cash Payments to Employees for Services	(723,154)
Cash Payments for Employee Benefits	(180,527)
Other Cash Payments	(59,590)
Net Cash Used for Operating Activities	<u>(556,430)</u>
Cash Flows from Noncapital Financial Activities	
Grants Received from Federal Government	468,591
Grants Received from State	3,232
Loan Payments from HSA Downtown	25,000
Net Cash Provided by Noncapital Financial Activities	<u>496,823</u>
Cash Flows from Capital and Related Financing Activities	
Payments for Capital Acquisitions	(72,238)
Payments for Capital Leases	(5,647)
Net Cash Used for Capital and Related Financing Activities	<u>(77,885)</u>
Net Decrease in Cash and Cash Equivalents	(137,492)
Cash and Cash Equivalents at Beginning of Year	<u>178,369</u>
Cash and Cash Equivalents at End of Year	<u>\$ 40,877</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HORIZON SCIENCE ACADEMY- DAYTON
MONTGOMERY COUNTY**

**Statement of Cash Flows
For Fiscal Year Ended June 30, 2012
(Continued)**

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

Operating Loss	\$ (605,989)
 Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities	
Depreciation	43,146
Changes in Assets and Liabilities	
Decrease in Accounts Payable	(11,752)
Decrease in Accrued Wages	(11,224)
Increase in Payroll Liabilities	28,439
Increase in Accounts Receivable	(13,879)
Increase in Intergovernmental Payable	14,829
Total Adjustments	<u>49,559</u>
 Net Cash Used for Operating Activities	 <u><u>\$ (556,430)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HORIZON SCIENCE ACADEMY- DAYTON
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Horizon Science Academy- Dayton (the School) is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to address the needs of students in grades K through sixth in Dayton. 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 has been approved as an exempt organization under Section 501(c) (3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the school's tax-exempt status.

The School was approved for operation under contract with the Educational Service Center of Lake Erie West (the Sponsor) for a period of five years commencing November 18, 2004. In May 2010, the contract was amended to extend automatically in one year terms unless terminated by any of the parties.

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 fiscal year 2012, the School employed 22 personnel for up to 154 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 Change 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- DAYTON
MONTGOMERY 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 Change in Net Assets present increases (e.g., revenues) and decreases (e.g., expenses) in total net assets. The Statement of Cash Flows provides information about how the School finances meets the cash flow needs of its enterprise activities.

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

C. Budgetary Process

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

D. Cash

To improve cash management, all cash received by the School is pooled in a central bank account. Total cash amount at the end of the fiscal year is presented as "Cash" in the Statement of Net Assets. Any investment with an original maturity date less than 90 days is considered a cash equivalent and any investment with a maturity date greater than 90 days is considered an investment. The School did not have any investments during the fiscal year 2012.

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 \$1,000 for inventory assets and \$10,000 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.

All capital assets are depreciated. Furniture, computers, office equipment, and vehicles are depreciated using straight-line method over the following estimated useful lives. Improvements to capital assets are depreciated using straight-line method 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.

**HORIZON SCIENCE ACADEMY- DAYTON
MONTGOMERY COUNTY**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Capital Assets and Depreciation (Continued)

	<u>Useful Life</u>
Improvements	3 to 10 years
Heavy Duty Office or Classroom Furniture	10 years
Computers and Other Electronic Equipment	3 to 5 years
Vehicles	3 to 10 years
Buildings	30 years

F. Intergovernmental Revenues

In fiscal year 2012, the School participated 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 the fiscal year 2012 totaled \$1,139,134.

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 in the fiscal year 2012 totaled \$443,214.

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

The School's policy indicates that all full time employees are entitled to eight days of sick/personal days in a school year. All leave earned by employees must be used within the current school year and cannot be transferred to the next school year. At the end of the year employees are awarded \$125 per each unused sick/personal day.

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, 2012 the School did not have any restricted net assets.

**HORIZON SCIENCE ACADEMY- DAYTON
MONTGOMERY COUNTY**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

3. DEPOSITS AND INVESTMENTS

At June 30 2012, the book balance of the School's bank account at Chase Bank was \$40,877 and the bank balance was \$88,211. The bank balance was insured by FDIC up to \$250,000. The School had no investments at June 30, 2012 or at any time during the fiscal year.

4. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012 was as follows:

Capital Assets				
	Beginning June 30, 2011	Additions	Deletions	Ending June 30, 2012
Instructional Furniture & Equipment	\$ 264,613	\$ 72,238	\$ 170,376	\$ 166,475
Office Furniture & Equipment	16,515	-	9,110	7,405
Improvements	22,174	-	22,174	-
Total Fixed Assets	303,302	72,238	201,660	173,880
Less: Accumulated Depreciation	(240,121)	(43,146)	201,660	(81,607)
Net Fixed Assets	\$ 63,181	\$ 29,092	\$ -	\$ 92,273

**HORIZON SCIENCE ACADEMY- DAYTON
MONTGOMERY COUNTY**

5. DEFINED BENEFIT PENSION PLANS

A. 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 system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that can 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 multiplied by 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 DB Plan and the DC 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 payment or converted to a lifetime monthly annuity at age 50. Benefits are established by Ohio Revised Code Chapter 3307.

A DB or Combined Plan member with five or more years of 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 - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon the recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. For the fiscal year ended June 30, 2012, plan members were required to contribute 10 percent of their annual covered salary. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

The School's required contributions to STRS Ohio were \$95,314 for the fiscal year ended June 30, 2012, \$87,700 for the fiscal year ended June 30, 2011, and \$89,270 for the fiscal year ended June 30, 2010. For fiscal year 2012, 96 percent has been contributed. The full amount has been contributed for fiscal years 2011 and 2010.

**HORIZON SCIENCE ACADEMY- DAYTON
MONTGOMERY COUNTY**

5. DEFINED BENEFIT PENSION PLANS (Continued)

B. School Employees Retirement System

Plan Description – The School participates in the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2012, the allocation to pension and death benefits was 12.70 percent. The remaining 1.30 percent of the 14 percent employer contribution rate is allocated to the Medicare B and Health Care funds. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2012, 2011, and 2010 were \$4,385, \$4,402 and \$5,887, respectively. For fiscal year 2012, and previous years, 100 percent has been contributed.

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 Employees Retirement System. As of June 30, 2012, two members of the Board of Education have elected Social Security. The remaining Board members contribute to SERS. The Board's liability is 6.2 percent of wages paid.

6. POSTEMPLOYMENT BENEFITS

A. State Teachers Retirement System

Plan Description – The School participates in 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. Ohio law authorizes STRS to offer this plan. 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 can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

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6. POSTEMPLOYMENT BENEFITS (Continued)

A. State Teachers Retirement System (Continued)

Funding Policy – Ohio Revised Code Chapter 3307 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 Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to post-employment health care. The School's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were \$6,808, \$6,264 and \$6,376, respectively. For fiscal year 2012, 96 percent has been contributed. The full amount has been contributed for fiscal years 2011 and 2010.

B. School Employees Retirement System

Plan Description – The School participates in two cost-sharing multiple-employer defined benefit other postemployment 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 obligation to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

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 105(e). For fiscal year 2012, .55 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 fiscal year 2012, this amount was \$35,800. During fiscal year 2012, the School paid \$507 in surcharge.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status. The School's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were \$172, \$450, and \$193, respectively. For fiscal year 2012, 65 percent has been contributed. The full amount has been contributed for fiscal years 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The School's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010, were \$235, \$239, and \$319, respectively. For fiscal year 2012 and previous years, 100 percent has been contributed.

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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. For fiscal year 2012, the School contracted with Selective Insurance Company for property and general liability insurance with a \$1,000,000 single occurrence limit and \$3,000,000 annual aggregate with no deductible. The School did not make any claims in the fiscal year.

The School also pays the State Workers Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State. The School paid 100% of its premiums for the fiscal year ended June 30, 2012.

8. EMPLOYEE MEDICAL AND DENTAL BENEFITS

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

9. PURCHASED SERVICES

Purchased service expenses during fiscal year 2012 were as follows:

Purchased Services	
Type	Amount
Instructional Services	\$ 97,503
Rent and Property Services	177,068
Management Fees	135,619
Advertising and Communications	38,580
Contracted Food Services	79,884
Extra-Curricular Activities	29,239
Professional Development	33,966
Other Professional Technical Services	55,292
Total	\$ 647,151

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10. CAPITAL LEASES

During the prior years, the School entered into 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. At the end of fiscal year ended June 30, 2012, the total recorded cost of capital lease assets was \$24,922 with the accumulated depreciation of \$17,238. The payment schedule for principle and interest on those capital leases is as follows;

	Lease Payments	Interest	Principal
2013	\$ 8,025	\$ 1,883	\$ 6,142
2014	5,824	520	5,304
Total Lease Payments	<u>\$ 13,849</u>	<u>\$ 2,403</u>	<u>\$11,446</u>

11. NOTES RECEIVABLES

In the fiscal year 2010, the School issued an interest-free loan of \$75,000 to Horizon Science Academy Dayton Downtown. The remaining balance of \$25,000 was paid off during the fiscal year.

12. OPERATING LEASES

The School entered into a lease agreement with Congregation of Our Lady of Roman Catholic Church on November 21, 2006 for the building located at 545 Odlin Ave Dayton, OH 45405. The School's monthly rent in fiscal year 2012 was \$9,394. For the fiscal year the School paid a total of \$102,329 for rent.

In August 2012, the School moved into its new location at 4751 Sue Ann Blvd. Dayton, OH 45415 signing a sublease contract with its sister school, Horizon Science Academy Dayton High School. The School will be sharing gym and cafeteria with the high School. According to the agreement the School is responsible for one third of the rent for the whole building. Horizon Science Academy Dayton High School contracted with New Plan Learning until July 2041. The required lease payments for the following three years will be as follows;

August 2012 – July 2013	\$177,108
August 2013 – July 2014	\$237,003
August 2014 – July 2015	\$259,108

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13. CONTINGENCIES

A. Auditor of State Review

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

The School received financial assistance from Federal and State agencies in the form of grants. The expenditure 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. This also encompasses the Auditor of State's ongoing review of student attendance data. 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, 2012.

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. According to the FTE review made for fiscal year 2012, no adjustment was required.

14. SPONSORSHIP AGREEMENT

On November 18, 2004, the School signed a sponsorship agreement with Lucas County Educational Services. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. In April 2010, the original contract was amended that it will automatically renew in one year terms unless it is terminated by any of the parties. According to the contract, the School pays 1.5% of its foundation revenues to the Sponsor. In fiscal year 2012, the schools compensation to the Sponsor was \$17,384. On January 1, 2012, the Lucas County Educational Service Center changed its name to Educational Service Center of Lake Erie West.

15. MANAGEMENT COMPANY AGREEMENT

School contracted with Concepts Schools, Inc. on January 1, 2005 to serve as the School's Management Company. The contract is renewed automatically every year in one year terms unless the school or the management company decides otherwise. According to the contract the school transfers 12% of the funds received from State. Total incurred management fees in the fiscal year was \$135,619.



Balestra, Harr & Scherer, CPAs, Inc.

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

Members of the Board
Horizon Science Academy - Dayton
Montgomery County
4751 Sue Ann Boulevard
Dayton, Ohio 45415

We have audited the financial statements of the business-type activities of Horizon Science Academy - Dayton, Montgomery County, Ohio, (the School), as of and for the year ended June 30, 2012, and have issued our report thereon dated December 7, 2012. 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 the purpose of expressing our opinion on the financial statements, but not for the purpose of opining 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

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 intend this report solely for the information and use of management, the Board Members, the Community School's sponsor, and others within the School. We intend it for no one other than these specified parties.

Balestra, Harr & Scherer, CPAs

Balestra, Harr & Scherer, CPAs, Inc.
December 7, 2012



Dave Yost • Auditor of State

HORIZON SCIENCE ACADEMY DAYTON

MONTGOMERY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 12, 2013**