

Horizon Science Academy of Toledo

Lucas County

Regular Audit

July 01, 2007 through June 30, 2008

Fiscal Year Audited Under GAGAS: 2008



Balestra, Harr & Scherer, CPAs, Inc.

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Mary Taylor, CPA

Auditor of State

Board of Trustees
Horizon Science Academy of Toledo
425 Jefferson Avenue
Toledo, Ohio 43604

We have reviewed the *Independent Auditor's Report* of the Horizon Science Academy of Toledo, Lucas County, prepared by Balestra, Harr & Scherer, CPAs, Inc., 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 Toledo is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

June 17, 2009

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Horizon Science Academy of Toledo
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For the Fiscal Year Ended June 30, 2008

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Ohio Society of Certified Public Accountants

Independent Auditor's Report

Members of the Board
Horizon Science Academy of Toledo
425 Jefferson Avenue
Toledo, Ohio 43604-1060

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

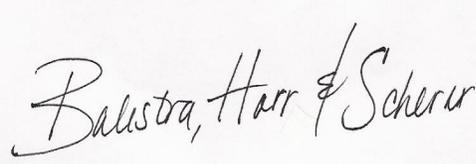
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform 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 the 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 respective financial position of the business-type activities of the Academy, 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 April 30, 2009, on our consideration of the Academy'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 the internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

As described in Note 16, the Academy implemented Governmental Accounting Standards Board (GASB) Statement No. 50, *Pension Disclosures – an amendment of GASB statement No. 25 and No. 27*, GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity transfers of Assets and Future Revenues*.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

April 30, 2009

Horizon Science Academy of Toledo
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
(Unaudited)

The discussion and analysis of Horizon Science Academy of Toledo's (the Academy) 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 Academy's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2008 are as follows:

- Total assets were \$189,782.
- Total liabilities were \$428,467.
- Total net assets decreased \$20,405.

Using this Financial Report

This report consists of three parts: the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and change in net assets, and a statement of cash flows.

Reporting the School as a Whole

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The statement of net assets and the statement of revenues, expenses and change in net assets, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the Academy's net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net assets – as reported in the statement of revenues, expenses and change in net assets – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results. However, the Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the Academy, to assess the overall health of the Academy.

The statement of net assets and the statement of revenues, expenses and change in net assets report the activities of the Academy, which encompass all the Academy's services, including instruction, supporting services, community services, and food services. Unrestricted state aid and state and federal grants finance most of these activities.

Horizon Science Academy of Toledo
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
(Unaudited)

Table 1 provides a comparison of net assets as of June 30, 2008 with net assets as of June 30, 2007.

Table 1

	Net Assets	
	2008	2007
<u>Assets</u>		
Current and Other Assets	\$21,398	\$121,852
Capital Assets, Net	168,384	214,572
Total Assets	189,782	336,424
<u>Liabilities</u>		
Current Liabilities	327,563	554,704
Non-Current Liabilities	100,904	0
Total Liabilities	428,467	554,704
<u>Net Assets</u>		
Invested in Capital Assets	168,384	214,572
Unrestricted	(407,069)	(432,852)
Total Net Assets	(\$238,685)	(\$218,280)

Total assets decreased \$146,642. This decrease is due mainly to a decrease in capital assets, net of accumulated depreciation of \$46,188 due to depreciation expense, and a decrease in intergovernmental receivables of \$121,178, which was only partially offset by an increase in cash and cash equivalents of \$20,724. Total liabilities decreased \$126,237. This decrease is due mainly to decreases in overdraft liability of \$77,704, accounts payable of \$92,568, and intergovernmental payable of \$7,503, which was partially offset by an increase in notes payable of \$65,715.

Horizon Science Academy of Toledo
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
(Unaudited)

Table 2 shows the changes in net assets for the fiscal years 2007 and 2008.

Table 2

Revenues, Expenses and Change in Net Assets		
	2008	2007
<u>Operating Revenue/Expense</u>		
Revenue		
Foundation Payments	\$1,659,502	\$1,705,387
Food Services	6,097	6,882
Classroom Fees	6,549	5,324
Extracurricular Activities	33,495	7,596
Donated Management Fee	129,222	0
Other Local Revenue	10,586	10,144
Total Operating Revenues	1,845,451	1,735,333
Expense		
Salaries	1,015,281	1,031,498
Fringe Benefits	240,148	204,670
Purchased Services	656,628	716,498
Materials and Supplies	139,311	156,220
Miscellaneous Expenses	66,853	43,807
Depreciation Expense	48,437	64,847
Total Operating Expenses	2,166,658	2,217,540
Net Operating Loss	(321,207)	(482,207)
<u>Non-Operating Revenues/Expenses</u>		
Restricted Grant-In-Aid- Federal	285,783	369,149
Restricted Grant In-Aid- State	8,012	6,393
Other Grants- Local	16,237	0
Contributions and Donations	0	1,500
Interest Expense	(9,230)	(8,440)
Total Non-Operating Revenues/Expenses	300,802	368,602
<u>Net Assets</u>		
Change in Net Assets	(20,405)	(113,605)
Net Assets at Beginning of Year	(218,280)	(104,675)
Net Assets at End of Year	(\$238,685)	(\$218,280)

Foundation support and federal grant revenue decreased \$45,885 and \$83,366, respectively, primarily as a result of a decrease in students. The Academy also received in-kind support (donated management fee) in the amount of \$129,222 in 2008. Purchased services decreased \$59,870 also as a result of decreased need for purchased services resulting from decreased enrollment and for an increase in sharing transportation costs with another Academy which also resulted in lower purchased services expenses. In 2009, the Academy will stop providing transportation services.

Foundation support is the primary support of the Academy, comprising 89.92% of operating revenue and 76.99% of total revenues. The Academy also received a significant portion of federal grants and in-kind contributions, which represent 13.26% and 6.00% of total revenue, respectively. Salaries and benefits comprise the largest portion of operating expenses, representing 57.85% of total operating expenses. Purchased services also represent a large portion of operating expenses, or 30.25%. Net assets decreased \$20,405, resulting from expenses in excess of revenues.

Horizon Science Academy of Toledo
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
(Unaudited)

Capital Assets

At the end of fiscal year 2008 the Academy had \$168,384, invested in furniture and equipment, and leasehold improvements (net of \$163,848 in accumulated depreciation). Table 3 shows fiscal year 2008 and fiscal year 2007:

Table 3

Capital Assets (Net of Depreciation)		
	2008	2007
Furniture and Equipment	\$154,483	\$186,774
Leasehold Improvements	13,901	27,798
Totals	\$168,384	\$214,572

For more information on capital assets see Note 4 to the basic financial statements.

Debt

The Academy entered into a promissory note with Horizon Science Academy – Cleveland on March 18, 2005, in the amount of \$200,000, at an interest rate of 6 percent. The note was used to pay for general operations of the Academy. In 2008, the Academy also obtained loans from Concept Schools and Engin Blackstone in the amounts of \$90,000 and \$10,000, respectively, which were also used to pay for general operations of the School. As of June 30, 2008 and 2007, the Academy has outstanding note balances as follows.

Table 4

Outstanding Note Balances		
	2008	2007
HSA Cleveland	\$129,899	\$139,184
Concept Schools	65,000	0
Engin Blackstone	10,000	0
Total	\$204,899	\$139,184

For more information on the Academy's debt see Note 10 to the basic financial statements.

Contacting the School's Financial Management

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the Academy's finances. Questions concerning any of the information in this report or requests for additional information should be directed to Amanmyrat Gurdov, Business Manager, Horizon Science Academy of Toledo, Inc., 425 Jefferson Avenue, Toledo, Ohio 43604-1060.

Horizon Science Academy of Toledo
Statement of Net Assets
June 30, 2008

ASSETS:

Current Assets:

Cash and cash equivalents	\$20,724
Intergovernmental receivable	<u>674</u>
Total current assets	<u>21,398</u>

Noncurrent Assets:

Depreciable capital assets	<u>168,384</u>
Total assets	<u>189,782</u>

LIABILITIES:

Current Liabilities:

Accounts payable	63,940
Accrued wages and benefits payable	100,997
Intergovernmental payable	54,536
Payroll liabilities	3,640
Note payable - current portion	103,995
Accrued interest payable	<u>455</u>
Total current liabilities	<u>327,563</u>

Noncurrent Liabilities:

Note payable - noncurrent portion	<u>100,904</u>
Total noncurrent liabilities	<u>100,904</u>
Total liabilities	<u>428,467</u>

NET ASSETS:

Invested in capital assets	168,384
Unrestricted (deficit)	<u>(407,069)</u>
Total net assets	<u><u>(\$238,685)</u></u>

See accompanying notes to the basic financial statements.

Horizon Science Academy of Toledo
Statement of Revenues, Expenses and Change in Net Assets
For the Fiscal Year Ended June 30, 2008

OPERATING REVENUES:	
Foundation payments	\$1,659,502
Food services	6,097
Classroom fees	6,549
Extracurricular activities	33,495
Donated management fee	129,222
Other revenue	<u>10,586</u>
Total operating revenues	<u>1,845,451</u>
OPERATING EXPENSES:	
Salaries	1,015,281
Fringe benefits	240,148
Purchased services	656,628
Materials and supplies	139,311
Depreciation	48,437
Miscellaneous	<u>66,853</u>
Total operating expenses	<u>2,166,658</u>
Operating loss	<u>(321,207)</u>
NON-OPERATING REVENUES (EXPENSES):	
Interest expense	(9,230)
Other grants - local	16,237
Restricted grants in aid - federal	285,783
Restricted grants in aid - state	<u>8,012</u>
Total non-operating revenues (expenses)	<u>300,802</u>
Change in net assets	(20,405)
Net assets, beginning of year	<u>(218,280)</u>
Net assets, end of year	<u><u>(\$238,685)</u></u>

See accompanying notes to the basic financial statements.

Horizon Science Academy of Toledo
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2008

INCREASE IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from State of Ohio	\$1,658,828
Cash received from other operating revenues	56,727
Cash payments to suppliers for goods and services	(759,285)
Cash payments to employees for services and benefits	(1,266,429)
Other cash payments	<u>(66,853)</u>
Net cash used for operating activities	<u>(377,012)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Federal grants received	407,635
State grants received	8,012
Other grants received	16,237
Overdraft liability	<u>(77,704)</u>
Net cash provided by noncapital financing activities	<u>354,180</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Principal paid on notes payable	(34,285)
Interest paid on notes payable	(19,910)
Payment for capital acquisitions	(2,249)
Proceeds from issuance of notes	<u>100,000</u>
Net cash provided by capital and related financing activities	<u>43,556</u>

Net increase in cash and cash equivalents	20,724
Cash and cash equivalents at beginning of year	<u>0</u>
Cash and cash equivalents at end of year	<u><u>\$20,724</u></u>

RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES

Operating loss	(\$321,207)
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ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES:

Depreciation	48,437
Changes in Assets and Liabilities:	
Increase in accounts receivable (Foundation payments)	(674)
Decrease in accounts payable	(92,568)
Increase in accrued wages and benefits payable	3,632
Decrease in intergovernmental payable	(7,503)
Decrease in payroll liabilities	<u>(7,129)</u>
Total adjustments	<u>(55,805)</u>

Net cash used for operating activities	<u><u>(377,012)</u></u>
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NONCASH TRANSACTIONS:

Donated management fee	\$129,222
Purchased services	129,222
Other grants - local	16,237

See accompanying notes to the basic financial statements.

Horizon Science Academy of Toledo
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

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

The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy. The Academy 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 Academy's tax-exempt status.

The Academy was approved for operation under contract with the Lucas County Educational Service Center (the Sponsor) for a period of five years commencing March 11, 2004.

The Academy 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. The Board of Trustees controls the Academy's facility, which is currently staffed by 30 full and part time personnel who provide services to up to 240 students during the year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Academy 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 Academy 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 Academy does not apply FASB statements issued after November 30, 1989. The more significant of the Academy's accounting policies are described below.

A. Basis of Presentation

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

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the Academy 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 Academy finances and meets the cash flow needs of its enterprise activities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting (Continued)

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The full accrual basis of accounting is used for reporting purposes. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Revenues resulting from non-exchange transactions, in which the Academy 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

The contract between the Academy and its Sponsor prescribes an annual budget requirement in addition to preparing a 5-year forecast, which is to be updated on an annual basis. Chapter 5705.391(A) of the Ohio Revised Code also requires the School to prepare a 5-year forecast, update it annually, and submit it to the Superintendent of Public Instruction at the Ohio Department of Education.

D. Cash

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

E. Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of one thousand dollars. 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 Academy does not capitalize interest.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program, Special Education Program, and Federal CCIP Program. Revenues received from the State Foundation Program, Special Education Program and other State programs are recognized as operating revenues whereas revenues from the Federal CCIP Program and other State Grants 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 Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

G. Operating Revenues and Expenses

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

H. Compensated Absences

Academy policy indicates that all leave earned by employees must be used in the current period and balances are not carried forward and, therefore, are not recorded as a liability.

I. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consists of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors, or contracts. The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

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

As of June 30, 2008, the Academy's bank balance of \$22,625 was either covered by FDIC or collateralized by the financial institution's public entity deposit pool in the manner described below.

Horizon Science Academy of Toledo
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

3. DEPOSITS (Continued)

Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the Federal Deposit Insurance Corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. The School has no policy regarding custodial credit risk.

4. CAPITAL ASSETS

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

	Balance at June 30, 2007	Additions	Disposals	Balance at June 30, 2008
Business-Type Activity				
Capital Assets Being Depreciated				
Furniture and Equipment	\$260,490	\$2,249	\$0	\$262,739
Leasehold Improvements	69,493	0	0	69,493
Total Capital Assets				
Being Depreciated	329,983	2,249	0	332,232
Less Accumulated Depreciation				
Furniture and Equipment	(73,716)	(34,540)	0	(108,256)
Leasehold Improvements	(41,695)	(13,897)	0	(55,592)
Total Accumulated Depreciation	(115,411)	(48,437)	0	(163,848)
Total Capital Assets				
Being Depreciated, Net	\$214,572	(\$46,188)	\$0	\$168,384

5. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Academy contributes to the School Employees Retirement System of Ohio (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 state statute per 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 contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org, under *Forms and Publications*.

5. DEFINED BENEFIT PENSION PLANS (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocated the current employer contribution rate among the four funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For the fiscal year ended 2008, it was determined the employer contribution rate to pension and death benefits to be 9.16%. The remaining 4.84% of the 14% employer contribution rate was allocated to the Health Care and Medicare B Funds. The Academy's contributions to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$22,665, \$24,117, and \$27,106, respectively; 100% has been contributed for fiscal years 2008, 2007 and 2006.

B. State Teachers Retirement System

State Teachers Retirement System of Ohio (STRS Ohio) is a cost-sharing, multiple-employer public employee retirement system.

STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, community school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

Plan Options – New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5 percent of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation of every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

5. DEFINED BENEFIT PENSION PLANS (Continued)

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. 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. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3% of the original base amount for DB Plan participants.

The DB and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

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 members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

5. DEFINED BENEFIT PENSION PLANS (Continued)

For the fiscal years ended June 30, 2008, 2007, and 2006, plan members were required to contribute 10 percent of their annual covered salaries. For these fiscal years, the Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS Ohio, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007, and 2006 were \$126,084, \$120,358, and \$114,199, respectively; 100% has been contributed for fiscal years 2008, 2007 and 2006.

STRS Ohio issues a stand-alone financial report. Copies of STRS Ohio's Comprehensive Annual Financial Report can be requested by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

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/State Teachers Retirement System. As of June 30, 2008, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages.

6. POSTEMPLOYMENT BENEFITS

A. State Teachers Retirement System

STRS Ohio administers a pension plan that is comprised of: a defined benefit plan; a self-directed defined contribution plan and a combined plan which is a hybrid of the defined benefit and defined contribution plan.

Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the defined benefit or combined plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums.

Pursuant to 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting www.strsoh.org or by requesting a copy by calling toll-free 1-888-227-7877.

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14 percent employer contribution rate, 1 percent of covered payroll was allocated to post-employment health care for the years ended June 30, 2008, 2007 and 2006. The 14 percent employer contribution rate is the maximum rate established under Ohio law. For the Academy, these amounts equaled \$9,006, \$8,953, and \$8,157 for fiscal years 2008, 2007, and 2006, respectively.

B. School Employees Retirement System

In addition to a cost-sharing multiple-employer defined benefit pension plan, the School Employees Retirement System of Ohio (SERS) administers two postemployment benefit plans.

6. POSTEMPLOYMENT BENEFITS (Continued)

Medicare Part B Plan

The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2008 was \$96.40; SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal years 2008, 2007, and 2006 the actuarially required allocations were 0.66 percent, 0.68 percent, and 0.78 percent. The Academy's contributions for the fiscal years ended June 30, 2008, 2007 and 2006 were \$1,068, \$1,171 and \$1,510, respectively, which equaled the required contributions for those years.

Health Care Plan

Ohio Revised Code 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The Ohio Revised Code provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with, Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. At June 30, 2008, 2007, and 2006, the health care allocations were 4.18 percent, 3.32 percent, and 3.42 percent, respectively. The actuarially required contribution (ARC), as of the June 30, 2008 annual valuation, was 13.41 percent of covered payroll. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities of the plan over a period not to exceed thirty years. For the Academy, the amounts contributed to fund health care benefits, including the surcharge, during the 2008, 2007, and 2006 fiscal years equaled \$6,767, \$4,604, and \$6,622, respectively.

An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2008, the minimum compensation level was established at \$35,800.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending upon the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The financial reports of SERS' Health Care and Medicare B plans are included in its *Comprehensive Annual Financial Report*. The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS website at www.ohsers.org under *Forms and Publications*.

Horizon Science Academy of Toledo
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

7. RISK MANAGEMENT

A. Property and Liability

The Academy 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 Academy contracted with Auto Owners Insurance Company for property and general liability insurance with a \$1,000,000 single occurrence limit and \$1,000,000 annual aggregate and no deductible. There has been no reduction in coverage from the prior year. There have been no settlements exceeding coverage in any of the last three fiscal years.

B. Workers Compensation

The Academy 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 Academy owed \$7,000 to BWC as of June 30, 2008. This amount is reported in the statement of net assets under intergovernmental payables.

8. EMPLOYEE MEDICAL AND DENTAL BENEFITS

The Academy has contracted with a private carrier to provide employee medical/surgical benefits. The Academy pays 60% of the monthly premium and the employee is responsible for the remaining 40%. The Academy has also contracted with private carriers to provide dental coverage. The School pays 60% of the monthly premium and the employee is responsible for the remaining 40%.

9. PURCHASED SERVICES

Purchased service expenses during fiscal year 2008 were as follows:

Type	Amount
Professional Services	\$215,355
Rent and Property Services	313,188
Admin Travel	5,590
Advertising and Communications	34,341
Pupil Transportation	88,154
Total	\$656,628

10. NOTES PAYABLE

Note payable activity during fiscal year 2008 was as follows:

	Balance at 7/1/07	Additions	Deletions	Balance at 6/30/08	Due Within One Year
Note Payable – HSA – Cleveland	\$139,184	\$0	\$9,285	\$129,899	\$28,995
Note Payable – Concept Schools	0	90,000	25,000	65,000	65,000
Note Payable – Engin Blackstone	0	10,000	0	10,000	10,000
Total	\$139,184	\$100,000	\$34,285	\$204,899	\$103,995

Horizon Science Academy of Toledo
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

10. NOTES PAYABLE (Continued)

The Academy entered into a promissory note with Horizon Science Academy – Cleveland on March 18, 2005, in the amount of \$200,000, at an interest rate of 6 percent. The note was used to pay for general operations of the Academy. The note was renegotiated on March 3, 2008 with modified repayment terms and forgiveness of past due interest. The amount of calculated forgiven interest from origination of the loan was \$16,237 which was recorded as intergovernmental revenue in the accompanying financial statements. As of June 30, 2008, the Academy has an outstanding balance of \$129,899 due to Horizon Science Academy – Cleveland.

The Academy received interest free loans from Concept Schools and Engin Blackstone during fiscal year 2008 in the amounts of \$90,000 and \$10,000, respectively. The loans were used to pay for general operations of the Academy. As of June 30, 2008, the School had outstanding balances on these loans of \$65,000 and \$10,000, respectively.

Amortization of the above debt is scheduled as follows:

For the Fiscal Year Ended June 30,	Principal	Interest	Total
2009	\$103,995	\$7,005	\$111,000
2010	30,783	5,217	36,000
2011	32,682	3,318	36,000
2012	34,698	1,302	36,000
2013	2,741	14	2,755
Total	\$204,899	\$16,856	\$221,755

11. OPERATING LEASES

The Academy entered into a sub-lease for a building facility for the period July 1, 2004 through June 30, 2009 with Concept Schools. On February 28, 2007, Concept Schools transferred the lease to the landlord, Zaleski Secor LLC. According to the terms of the lease, monthly rent is \$22,737 with a 3% increase annually. During fiscal year 2008, payments made to Zaleski Secor LLC totaled \$297,825.

The Academy entered into a lease for two copiers with Ikon Financial Services. The copiers have a lease period of August 3, 2004 through August 2, 2009.

The following is a schedule of the future payments required under the operating leases as of June 30, 2008.

Fiscal Year Ending June 30,	Facility Lease	Copier Lease
2009	\$283,838	\$5,541
2010	0	462
Total minimum lease payments	\$283,838	\$6,003

12. CONTINGENCIES

A. Grants

The Academy 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 Academy. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the School. In fiscal year 2008, the Academy received grants from State and Federal agencies total of \$293,795.

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 Academy. These reviews are conducted to ensure the Community School is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The review for fiscal year 2008 showed the Academy was underpaid by \$674 which will be remitted to the Academy in fiscal year 2009. This amount is reflected in the statement of net assets as an intergovernmental receivable.

C. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001 alleging that Ohio's Community (i.e., Charter) School programs violate the State Constitution and state laws. On April 23, 2004, the Court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed and the case was heard on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the State public educational system and this matter was sent to the Ohio Supreme Court. On October 25, 2006, the Supreme Court of Ohio held that Chapter 3314 of the Ohio Revised Code, the state law authorizing establishment and operation of community or "charter" schools, is constitutional both on its face and as applied.

13. SPONSORSHIP AGREEMENT

On July 1, 2004, Lucas County Educational Service Center assumed responsibility for sponsorship of the Academy. The Sponsor is responsible for evaluating the performance of the Academy 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 May 14, 2012. According to the contract, the Academy pays 1% of its foundation revenues to the Sponsor. This rate will be increased to 1.5% as of July 1, 2009. In fiscal year 2008, the School's compensation to the Sponsor was \$16,622.

14. MANAGEMENT COMPANY AGREEMENT

In October 2004, the Academy contracted with Concepts Schools, Inc. to serve as the Academy's management company. The contract is renewed automatically every year in one year terms unless the Academy or the management company decides otherwise. According to the contract, the Academy transfers 10% of the funds received from the State. In fiscal year 2008, the School paid \$37,000 to Concept Schools for management services. The rest of the fees, amounting to \$129,222, were forgiven by Concept Schools, and are reflected in the statement of revenues, expenses and change in net assets as donated management fee.

15. RELATED PARTIES

The Board members for the Academy are also Board members for other Horizon Science Academy Schools that are managed by the same management company, Concept Schools.

16. CHANGE IN ACCOUNTING PRINCIPLES

For the fiscal year 2008, the Academy implemented GASB Statement No. 50, “Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27,” and GASB Statement No. 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.” GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in the notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. The application of these new standards had no effect on the financial statements, nor did their implementation require a restatement of prior year balances.

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**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***

Horizon Science Academy of Toledo
Lucas County, Ohio
425 Jefferson Avenue
Toledo, Ohio 43604-1060

We have audited the financial statements of the business-type activities of Horizon Science Academy of Toledo, Lucas County, Ohio (the Academy), as of and for the year ended June 30, 2008 and have issued our report thereon dated April 30, 2009 in which we noted that the Academy adopted Governmental Accounting Standards Board Statement No. 45, Statement No. 50 and Statement No. 48. 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 Academy'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 to opine on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Academy's internal control over financial reporting.

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the Academy'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 that are required to be reported under *Government Auditing Standards*.

We noted a certain non-compliance and other matter that we have reported to the Academy's management in a separate letter dated April 30, 2009.

This report is intended solely for the information and use of management and members of the Board, and is not intended to be and should not be used by anyone other than these specified parties.



Balestra, Harr & Scherer, CPAs, Inc.
April 30, 2009

**Horizon Science Academy of Toledo
Lucas County**

**Schedule of Prior Audit Findings
June 30, 2008**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected; Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2007-001	Noncompliance Citation: Article 6.02, Loan payments in accordance with loan agreement	Yes	
2007-002	Significant Deficiency: Financial statement misstatement. Negative cash balance was identified.	Yes	



Mary Taylor, CPA
Auditor of State

HORIZON SCIENCE ACADEMY OF TOLEDO

LUCAS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 30, 2009**