HORIZON SCIENCE ACADEMY OF TOLEDO
LUCAS COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2006

Mary Taylor, CPA
Auditor of State

HORIZON SCIENCE ACADEMY OF TOLEDO
LUCAS COUNTY

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INDEPENDENT ACCOUNTANTS' REPORT

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

To the Governing Board:

We have audited the accompanying basic financial statements of Horizon Science Academy of Toledo, Lucas County, Ohio (the School), as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the School, as of June 30, 2006, 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 June 22, 2007, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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www.auditor.state.oh.us

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Mary Taylor

Mary Taylor, CPA
Auditor of State

June 22, 2007

HORIZON SCIENCE ACADEMY OF TOLEDO
LUCAS COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED

The discussion and analysis of Horizon Science Academy of Toledo's (the School) financial performance provides an overall review of the Schools' financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the Schools' financial performance as a whole; notes to the basic financial statements and financial statements to enhance their understanding of the Schools' financial performance.

Financial Highlights

- Total Assets were $379,275.
- Total Liabilities were $483,950.
- The Change in Net Assets was $(28,870).

Using this Annual 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 changes in net assets, and a statement of cash flows.

Reporting the School as a Whole

One of the most important questions asked about the School is, "As a whole, what is the School's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which appear first in the School's financial statements, report information on the School as 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 School's net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the School's financial health or financial position. Over time, increases or decreases in the School's net assets – as reported in the Statement of Net Assets – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School's operating results. However, the School'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 school, to assess the overall health of the School.

The Statement of Net Assets and the Statement of Activities report the activities for the School, which encompass all the School's services, including instruction, support services, community services, and food services. Unrestricted state aid and state and federal grants finance most of these activities.

Table 1 provides a summary of the Schools' net assets for fiscal year 2006 compared to fiscal year 2005:

Table 1
Net Assets

	2006	2005
Assets		
Current Assets	$ 127,483	$ 16,214
Capital Assets, Net	251,792	296,133
Total Assets	379,275	312,347
Liabilities		
Current Liabilities	483,950	388,152
Total Liabilities	483,950	388,152
Net Assets		
Invested in Capital Assets	251,792	296,133
Unrestricted	(356,468)	(371,938)
Total Net Assets	$ (104,676)	$ (75,805)

Total assets increased by $66,928 which represents a 21.43 percent increase from fiscal year 2005. While cash and cash equivalents decreased by $6,860, total receivables increased by $118,129. Cash and cash equivalents decreased due to increase spending in personnel and materials and supplies during fiscal year end 2006. Intergovernmental receivable increased due to the School receiving more federal grants, mainly Title I, during fiscal year 2006. Total liabilities increased by $95,798, which represents a 24.68 percent increase from fiscal year 2005. This increase was mainly due to the FTE review resulting in an overpayment to the school of $18,160 and federal grant funds that were required to be paid back to the federal awarding agencies totaling $65,987, both amounts are reflected as an intergovernmental payable. Accounts payable also increased by $30,451 due to amounts owed for contracted services. The School's net assets decreased by $28,870, which represents a 38.08 percent decrease from fiscal year 2005.

Table 2 shows the changes in net assets for the year ended 2006. For comparison purposes, data from the June 30, 2005 year-end is reported to the right of the current year's figures.

Table 2
Change in Net Assets

	2006	2005
Operating Revenues		
Operating Revenues:		
Foundation Payments	$ 1,730,172	$ 1,462,616
Food Service	9,442	
Classroom Fees	11,710	30,031
Extracurricular Activities	15,600	11,300
Other	12,039	7,858
Non-Operating Revenues		
Operating Grants - Federal	321,511	153,593
Operating Grants - State	5,000	3,000
Contributions and Donations		150,001
Total Revenues	2,105,474	1,818,399
Operating Expenses		
Operating Expenses		
Salaries	1,049,304	875,798
Fringe Benefits	219,356	164,817
Purchased Services	621,086	637,154
Materials and Supplies	143,917	132,141
Depreciation	62,884	59,616
Other Expenses	29,270	21,237
Non-Operating Expenses		
Interest and Fiscal Charges	8,527	3,441
Total Expenses	2,134,344	1,894,204
Decrease in Net Assets	$ (28,870)	$ (75,805)

State Foundation Basic Aid and Special Education, as a whole, are the primary support for the Academy, representing 97.26 percent of the operating revenue. Salaries and Fringe Benefits comprise 59.68 percent of operating expenses.

The School had total revenues of $2,105,474, and total expenses of $2,134,344. The change in net assets for the year was a decrease of $(28,870). This decrease is mainly due to increased spending in personnel and materials and supplies during fiscal year end 2006.

Capital Assets

At the end of fiscal year 2006 the School had $251,792, invested in furniture, fixtures, and equipment, and leasehold improvements (net of $122,500 in accumulated depreciation). Table 3 shows fiscal year 2006 and fiscal year 2005:

Table 3
Capital Asset at June 30, 2006
(Net of Depreciation)

	2006	2005
Furniture, Fixtures, and Equipment	$ 210,097	$ 240,539
Leasehold Improvements	41,695	55,594
Totals	$ 251,792	$ 296,133

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

Debt

The School 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 School. As of June 30, 2006, the School has an outstanding balance of 139,184 with the Horizon Science Academy – Cleveland.

Amortization of the above debt, including interest, is scheduled as follows:

Year ending June 30:	HSA - Cleveland
2007	$ 141,968

For more information on the School's debt see Note 11 to the basic financial statements.

Contacting the School's Financial Management

This financial report is designed to provide our citizen's with a general overview of the School's finances and to show accountability for the money it receives. If you have questions about this report or need additional information contact Amanmyrat Gurdov, Business Manager, Horizon Science Academy of Toledo, 425 Jefferson Avenue, Toledo, Ohio 43604-1060.

HORIZON SCIENCE ACADEMY OF TOLEDO
LUCAS COUNTY

STATEMENT OF NET ASSETS
JUNE 30, 2006

Assets		
Current Assets:		
Cash and Cash Equivalents	$	2,374
Intergovernmental Receivables		125,109
Total Current Assets		127,483
Non-Current Assets:		
Capital Assets:		
Depreciable Capital Assets, Net		251,792
Total Assets		379,275
Liabilities		
Current Liabilities:		
Accounts Payable		130,758
Accrued Wages Payable		86,830
Notes Payable		139,184
Accrued Interest Payable		2,783
Intergovernmental Payable		124,395
Total Liabilities		483,950
Net Assets		
Invested in Capital Assets, Net of Related Debt		251,792
Unrestricted		(356,467)
Total Net Assets	$	(104,675)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

HORIZON SCIENCE ACADEMY OF TOLEDO
LUCAS COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Operating Revenues	
Foundation Payments	$ 1,730,172
Classroom Fees	11,710
Food Service	9,442
Extracurricular Activities	15,600
Other Revenues	12,039
Total Operating Revenues	1,778,963
Operating Expenses	
Salaries	1,049,304
Fringe Benefits	219,356
Purchased Services	621,086
Materials and Supplies	143,917
Depreciation	62,884
Other	29,270
Total Operating Expenses	2,125,817
Operating Loss	(346,854)
Non-Operating Revenues and Expenses	
Federal Grants	321,511
State Grants	5,000
Interest and Fiscal Charges	(8,527)
Total Non-Operating Revenues and Expenses	317,984
Change in Net Assets	(28,870)
Net Assets Beginning of Year	(75,805)
Net Assets End of Year	$ (104,675)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

HORIZON SCIENCE ACADEMY OF TOLEDO
LUCAS COUNTY

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities:	
Cash Received from State of Ohio	$ 1,733,050
Cash Received from Other Operating Revenues	48,791
Cash Payments to Suppliers for Goods and Services	(732,510)
Cash Payments to Employees for Services	(1,041,435)
Cash Payments for Employee Benefits	(192,649)
Other Cash Payments	(30,952)
Net Cash Used for Operating Activities	(215,705)
Cash Flows from Noncapital Financing Activities:	
Federal Grants Received	262,388
State Grants Received	5,000
Net Cash Provided by Noncapital Financing Activities	267,388
Cash Flows from Capital and Related Financing Activities:	
Payments for Capital Acquisitions	(18,543)
Principal Payments	(33,681)
Interest Payments	(6,319)
Net Cash Used for Capital and Related Financing Activities	(58,543)
Net Decrease in Cash and Cash Equivalents	(6,860)
Cash and Cash Equivalents at Beginning of Year	9,234
Cash and Cash Equivalents at End of Year	$ 2,374

(Continued)

HORIZON SCIENCE ACADEMY OF TOLEDO
LUCAS COUNTY

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)

Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:		
Operating Loss	$	(346,854)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities		
Depreciation		62,884
Changes in Assets and Liabilities:		
Decrease in Intergovernmental Receivable		6,980
Increase in Accounts Payable		30,451
Increase in Accrued Wages Payable		24,702
Increase in Intergovernmental Payable		12,532
Decrease in Compensated Absences		(6,400)
Total Adjustments		131,149
Net Cash Provided by Operating Activities	$	(215,705)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

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

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

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

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. The Board of Trustees controls the School's facility, which is currently staffed by 34 full and part time personnel who provide services to up to 277 students during the year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

B. Measurement Focus and Basis of Accounting

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

The contract between the School 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 School is pooled in a central bank account. The School did not have any investments during fiscal year 2006.

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 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 School does not capitalize interest.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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

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

F. Intergovernmental Revenues

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

G. Operating Revenues and Expenses

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

H. Compensated Absences

School policy indicates that all 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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. The School had restricted net assets related to amounts held by a lessor as part of the School's lease agreement.

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

At June 30, 2006, the bank balance was $12,913. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2006, none of the bank balance was exposed to custodial risk as discussed below, and all of the bank balance was covered by the Federal Depository Insurance Corporation.

Custodial credit risk is the risk that in the event of bank failure, the School will not be able to recover the deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at the Federal Reserve Banks or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the School.

4. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006:

	Balance 7/1/05	Additions	Deletions	Balance 6/30/06
Business-Type Activity				
Capital Assets Being Depreciated				
Furniture, Fixtures, and Equipment	286,256	18,543		304,799
Leasehold Improvements	69,493			69,493
Total Capital Assets Being Depreciated	355,749	18,543		374,292
Less Accumulated Depreciation:				
Furniture, Fixtures, and Equipment	(45,717)	(48,985)		(94,702)
Leasehold Improvements	(13,899)	(13,899)		(27,798)
Total Accumulated Depreciation	(59,616)	(62,884)		(122,500)
Total Capital Assets Being Depreciated, Net	296,133	(44,341)		251,792

5. RECEIVABLES

Receivables at June 30, 2006, consisted of intergovernmental grants. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of receivables follows:

Intergovernmental Receivables	Amounts
Title I '06	102,800
Title IIA '06	4,875
Title IID '06	1,870
Title IV -SDFSC '06	105
Title V '06	650
IDEA - B '06	14,809
Total Intergovernmental Receivables	$ 125,109

6. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 10% of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for the fiscal year 2006, 10.58% of annual covered salary was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board.

The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006 and 2005, were $27,106 and $18,937, respectively; 85 percent has been contributed for fiscal year 2006 and 100 percent for fiscal year 2005. The unpaid portion of $4,164 is reported in the Statement of Net Assets under Intergovernmental Payables.

B. State Teachers Retirement System

The School participates in the State Teachers Retirement System of Ohio (STRS), 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 may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% 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 Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit

6. DEFINED BENEFIT PENSION PLANS – (Continued)

Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a onetime irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2006, plan members were required to contribute 10% of their annual covered salaries. The School was required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations for the fiscal years ended June 30, 2006 and 2005, were $114,199 and $97,223, respectively; 100 percent has been contributed for fiscal years 2006 and 2005.

7. POSTEMPLOYMENT BENEFITS

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. STRS Ohio pays health care benefits from the Health Care Reserve fund. For the School, this amount equaled $8,785 for fiscal year 2006. STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005 (the latest information available) the balance in the Health Care Reserve fund was $3.3 billion. For the fiscal year ended June 30, 2005, net health care costs paid by STRS Ohio were $254,780,000 and STRS Ohio had 115,395 eligible benefit recipients.

7. POSTEMPLOYMENT BENEFITS – (Continued)

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All members must pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at $35,800. For the Academy, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled $9,164.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005, were $178,221,113. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was $267.5 million, which is about 168 percent of next year's projected net health care costs of $158,776,151. On the basis of actuarial projections, the allocated contributions will be sufficient, in the long-term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has approximately 58,123 participants currently receiving health care benefits.

8. RISK MANAGEMENT

A. Property and Liability

The School is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2006, the School contracted with Auto Owner 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 over the prior year. There have been no settlements exceeding coverage in the last three years.

B. Workers Compensation

The School 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 owed $ 6,920 to BWC as of June 30, 2006. This amount is reported in the Statement of Net Assets under the liability of Intergovernmental Payables.

9. EMPLOYEE MEDICAL AND DENTAL BENEFITS

The School has contracted with a private carrier to provide employee medical/surgical benefits. The School pays 50% of the monthly premium and the employee is responsible for the remaining 50%. The School has also contracted with private carriers to provide dental coverage. The School pays 50% of the monthly premium and the employee is responsible for the remaining 50%.

10. PURCHASED SERVICES

Purchased service expenses during fiscal year 2006 were as follows:

Type	Amount
Professional Services	84,847
Rent and Property Services	342,129
Travel	1,730
Advertising and Communications	34,489
Pupil Transportation	157,892
Total	**$ 621,086**

11. NOTES PAYABLE

Note Payable Activity During 2006 was as follows:

	Balance at 07/01/05	Additions	Reductions	Balance at 06/30/06
Note Payable - HSA - Cleveland	$ 172,865		$ 33,681	$ 139,184

The School 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 School. As of June 30, 2006, the School has an outstanding balance of 139,184 with the Horizon Science Academy – Cleveland.

Amortization of the above debt, including interest, is scheduled as follows:

Year ending June 30:	HSA - Cleveland
2007	$ 141,968

The School did not make the required scheduled debt payments in accordance with the debt agreement, dated March 18, 2005, with Horizon Science Academy of Cleveland during the fiscal year.

12. OPERATING LEASES

The School has entered into a sub-lease for a building facility for the period July 1, 2004, through June 30, 2009, with Concept Schools. Payments made totaled $290,120 for the fiscal period. The School has the option to renew the lease at an adjusted rate at the end of the contract period.

The School 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. Payments made related to the lease totaled $5,541 for the period ended June 30, 2006.

The following is a schedule of the future minimum payments required under the operating leases as of June 30, 2006.

Fiscal Year Ending June 30,	Facility Lease	Copier Lease
2007	290,120	5,541
2008	290,120	5,541
2009	290,120	5,541
2010		462
Total minimum lease payments	$ 870,360	$ 17,085

13. CONTINGENCIES

A. Grants

The School received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. In the Fiscal Year 2006 the School received grants from State and Federal agencies total of $326,511. The School had a cash balance on hand of $65,987 of Title I funds, at year end. The Ohio Department of Education requested this amount be refunded back to ODE; this amount is reported in The Statement of Net Assets as an Intergovernmental Payables.

B. Ohio Department of Education Enrollment Review

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the School. These reviews are conducted to ensure the Community School is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The review for fiscal year 2006 shows the School received an extra of $18,160, which is reported in the Statement of Net Assets under Intergovernmental Payables. This amount is to be deducted from monthly foundation payments in fiscal year 2007.

13. CONTINGENCIES – (Continued)

C. Litigation

A suit was filed in the US District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under the Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The case is still pending. The effect of this suit, if any, on the Academy is not presently determinable.

14. MANAGEMENT AGREEMENT

The School entered into a one-year contract, effective September 1, 2004, through August 31, 2005, with Concept Schools for educational management services for all of the management, operation, and administration at the School. This contract renewed for an additional one year on September 1, 2005. In exchange for its services, Concept Schools receives 10% of state funds. The amount paid to Concept Schools for fiscal year 2005, for management fees, totaled $94,900. Terms of the contracts require Concept Schools to provide the following:

A. Human Resources;

B. Professional Development for School Board;

C. Professional Development for School Administrators and Teachers;

D. Accreditation and Recognition (including contract renewal);

E. Strategic Planning;

F. Grant Writing;

G. After School Program Design;

H. Technology Support;

I. Database Management (student related);

J. Facility Management;

K. Marketing Materials;

L. Curriculum Development;

M. Public Relation Services, and;

N. Purchasing Services

15. MANAGEMENT COMPANY AGREEMENT

In October 2004, the School contracted with Concepts Schools, Inc. to serve as the School's management company. This contract was renewed on September 1, 2005 for an additional one year and to be renewed every year in one year terms unless the school or the management company decides otherwise. Total payments to Concept Schools in fiscal year 2006 amounted to $464,344. Payments by category are as follows:

Management Fees	125,000
Rent	314,296
Other Professional	6,505
Capital Outlay	18,543
Total	$ 464,344

16. RELATED PARTIES

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

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

To the Governing Board:

We have audited the basic financial statements of Horizon Science Academy of Toledo, Lucas County, Ohio (the School) as of and for the year ended June 30, 2006, and have issued our report thereon dated June 22, 2007. 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 to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School's management dated June 22, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

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 an instance of noncompliance or other matter that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2006-001. In a separate letter to the School's management dated June 22, 2007, we reported other matters related to noncompliance we deemed immaterial.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

June 22, 2007

SCHEDULE OF FINDINGS
JUNE 30, 2006

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

FINDING NUMBER 2006-001

Non-Compliance Citation

Article 6.02 of the loan agreement between Horizon Science Academy of Toledo (“Borrower”) and Horizon Educational Services, Inc., dba Horizon Science Academy-Cleveland (“Lender”) states “the borrower must pay indebtedness and obligations promptly and in accordance with normal terms” which are further specified in Article 3.01 of the loan agreement.

The School’s management has not made scheduled payments in accordance with the loan agreement. During the fiscal year, the School was required to make nine principal and interest payments totaling $177,405. The School made only three payments totaling $50,000.

We recommend the School’s management implement procedures to ensure loan payments are made in accordance with the schedule contained in the loan agreement.

Officials’ Response

The Academy’s management intends to request that the governing boards of Horizon Science Academy of Toledo and Horizon Science Academy of Cleveland amend the original debt agreement. Management intends to request a lower interest rate and extended repayment terms for the loan.

HORIZON SCIENCE ACADEMY OF TOLEDO
LUCAS COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2006

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2005-001	Public monies illegally expended	Yes	
2005-002	Public monies illegally expended	Yes	
2005-003	Public monies illegally expended	Yes	
2005-004	Public monies illegally expended	Yes	
2005-005	Public monies illegally expended	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
AUGUST 14, 2007

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