



**HORIZON SCIENCE ACADEMY CLEVELAND MIDDLE SCHOOL
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2009



Mary Taylor, CPA
Auditor of State

**HORIZON SCIENCE ACADEMY CLEVELAND MIDDLE SCHOOL
CUYAHOGA COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Horizon Science Academy Cleveland Middle School
Cuyahoga County
6100 South Marginal Road
Cleveland, Ohio 44103

To the Board of Trustees:

We have audited the accompanying basic financial statements of the Horizon Science Academy Cleveland Middle School, Cuyahoga County, Ohio, (the School), as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Horizon Science Academy Cleveland Middle School, Cuyahoga County, Ohio, as of June 30, 2009, and the respective changes in financial position and cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2010, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

April 30, 2010

**Horizon Science Academy Cleveland Middle School
Management's Discussion and Analysis**

For The Fiscal Year Ended June 30, 2009
(Unaudited)

The discussion and analysis of Horizon Science Academy Cleveland Middle School's (the School) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2009. Readers should also review the financial statements and notes to enhance their understanding of the School's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2009 are as follows:

- Total assets were \$342,618.
- Total liabilities were \$56,578.
- Total net assets decreased \$81,627.

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 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 Revenues, Expenses and Changes in Net Assets, which appear first in the School's financial statements, report information on the School 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 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 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 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 Revenues, Expenses and Changes in Net Assets report the activities of 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.

**Horizon Science Academy Cleveland Middle School
Management's Discussion and Analysis**

For The Fiscal Year Ended June 30, 2009
(Unaudited)

Table 1 provides a comparison of net assets as of June 30, 2009 with net assets as of June 30, 2008.

Table 1

Net Assets

	2009	2008
<u>Assets</u>		
Current and Other Assets	\$225,477	\$350,755
Capital Assets, Net	117,141	131,730
Total Assets	342,618	482,485
<u>Liabilities</u>		
Current Liabilities	53,836	108,758
Non-Current Liabilities	2,742	6,060
Total Liabilities	56,578	114,818
<u>Net Assets</u>		
Invested in Capital Assets, less Related Debts	111,082	131,730
Unrestricted	174,958	235,937
Total Net Assets	\$286,040	\$367,667

Total assets decreased \$139,867. This decrease is due mainly to decrease in intergovernmental receivable, \$50,000 notes receivable, \$54,900 prepaid expenses in rent, and decrease in capital assets, net of accumulated depreciation of \$14,589. Intergovernmental receivables decreased by \$91,173 due to timely receipting of Federal funds during 2009. Total liabilities decreased \$58,240 due mainly to payments in accrued wages and accounts payable.

**Horizon Science Academy Cleveland Middle School
Management's Discussion and Analysis**

For The Fiscal Year Ended June 30, 2009
(Unaudited)

Table 2 shows the changes in net assets for the fiscal years 2009 and 2008.

Table 2

Revenues, Expenses and Change in Net Assets		
	2009	2008
<u>Operating Revenue/Expense</u>		
Revenue		
Foundation Payments	\$1,078,704	\$1,577,585
Food Services	5,306	0
Classroom Fees	12,677	27,722
Extracurricular Activities	3,166	14,470
Other Local Revenue	9,001	10,755
Total Operating Revenues	1,108,854	1,630,532
Expense		
Salaries	607,905	906,621
Fringe Benefits	169,000	178,847
Purchased Services	459,500	706,780
Materials and Supplies	96,643	181,543
Miscellaneous Expenses	42,567	32,196
Depreciation Expense	34,726	39,802
Total Operating Expenses	1,410,341	2,045,789
Net Operating Loss	(301,487)	(415,257)
<u>Non-Operating Revenues/Expenses</u>		
Restricted Grant-In-Aid- Federal	214,676	286,816
Restricted Grant In-Aid- State	5,700	14,997
Interest Expense	(516)	0
Total Non-Operating Revenues/Expenses	219,860	301,813
Change in Net Assets	(81,627)	(113,444)
Net Assets at Beginning of Year	367,667	481,111
Net Assets at End of Year	\$286,040	\$367,667

Foundation support revenue and Federal and State Grant revenues decreased \$498,881, and \$81,437 primarily as a result of decrease in students. Total operating expenses decreased \$635,448 also as a result of decreased need for services resulting enrollment.

Foundation support is the primary support of the School, comprising 97% of operating revenue and 81% of total revenues. The School also received a significant portion of federal grants, which represent 16% of total revenue. Salaries and benefits comprise the largest portion of operating expenses, representing 55% of total operating expenses. Purchased services also represent a large portion of operating expenses, or 33%. Net assets decreased \$81,627 resulting from expenses in excess of revenues.

**Horizon Science Academy Cleveland Middle School
Management's Discussion and Analysis**

For The Fiscal Year Ended June 30, 2009
(Unaudited)

Capital Assets

Table 3

At the end of fiscal year 2009, the School had \$117,141 invested in furniture and equipment, and school vehicle (net of accumulated depreciation). Table 3 shows fiscal year 2009.

Capital Assets				
	Balance			Ending
	<u>July 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2009</u>
Furniture and Equipment – Instr.	\$139,928	\$10,996	\$0	\$ 150,924
Furniture and Equipment –Office	55,789	4,391	0	60,180
School Vehicle	15,351	16,005	15,351	16,005
Total Fixed Assets	211,068	31,392	15,351	227,109
Less: Accumulated Depreciation	(79,338)	(34,726)	(4,096)	(109,968)
Net Fixed Assets	<u>\$131,730</u>	<u>\$(3,334)</u>	<u>\$ 11,255</u>	<u>\$117,141</u>

For more information on capital assets see Note 4 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 School's finances. Questions concerning any of the information in this report or requests for additional information should be directed to Aman Gurdov, Treasurer, Horizon Science Academy Cleveland Middle School, Inc., 6100 South Marginal Road, Cleveland, OH 44103.

Horizon Science Academy Cleveland Middle School

Statement of Net Assets

June 30, 2009

ASSETS:

Current Assets:

Cash and cash equivalents \$67,191

Receivables:

Accounts 40,500

Prepaid Expenses 117,786

Total current assets 225,477

Noncurrent Assets:

Depreciable capital assets 117,141

Total assets 342,618

LIABILITIES:

Current Liabilities:

Accounts payable 2,347

Accrued wages and benefits payable 66,699

Payroll liabilities (18,527)

Capital Lease – current portion 3,317

Total current liabilities 53,836

Noncurrent Liabilities:

Capital Lease – due in more than one year 2,742

Total noncurrent liabilities 2,742

Total Liabilities 56,578

NET ASSETS:

Invested in capital assets , less related debt 111,082

Unrestricted 174,958

Total net assets \$286,040

See accompanying notes to the basic financial statements.

Horizon Science Academy Cleveland Middle School
Statement of Revenues, Expenses and Change in Net Assets
For the Fiscal Year Ended June 30, 2009

OPERATING REVENUES:	
Foundation payments	\$1,078,704
Food services	5,306
Classroom fees	12,677
Extracurricular activities	3,166
Other revenue	<u>9,001</u>
Total operating revenues	<u>1,108,854</u>
OPERATING EXPENSES:	
Salaries	607,905
Fringe benefits	169,000
Purchased services	459,500
Materials and supplies	96,643
Depreciation	34,726
Miscellaneous	<u>42,567</u>
Total operating expenses	<u>1,410,341</u>
Operating loss	<u>(301,487)</u>
NON-OPERATING REVENUES (EXPENSES):	
Interest expense	(516)
Restricted grants in aid – federal	214,676
Restricted grants in aid – state	<u>5,700</u>
Total non-operating revenues	<u>219,860</u>
Change in net assets	(81,627)
Net assets, beginning of year	<u>367,667</u>
Net assets, end of year	<u><u>\$286,040</u></u>

See accompanying notes to the basic financial statements.

Horizon Science Academy Cleveland Middle School

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2009

INCREASE IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from State of Ohio	\$1,169,877
Cash received from other operating revenues	30,150
Cash payments to suppliers for goods and services	(507,917)
Cash payments to employees for services and benefits	(859,598)
Other cash payments	<u>(42,567)</u>

Net cash used for operating activities (210,055)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Federal grants received	214,676
State grants received	<u>5,700</u>

Net cash provided by noncapital financing activities 220,376

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Principal paid on capital lease	(3,118)
Interest paid on capital lease	(516)
Proceeds received from sale of capital assets	5,000
Proceeds from redemption of notes	50,000
Payment for capital acquisitions	<u>(31,392)</u>

Net cash provided by capital and related financing activities 19,974

Net increase in cash and cash equivalents 30,295

Cash and cash equivalents at beginning of year 36,896

Cash and cash equivalents at end of year \$67,191

**RECONCILIATION OF OPERATING LOSS TO NET CASH
USED FOR OPERATING ACTIVITIES**

Operating loss \$(301,487)

**ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET
CASH USED FOR OPERATING ACTIVITIES:**

Depreciation 34,726

Changes in Assets and Liabilities:

Decrease in accounts receivable 56,927

Decrease in accounts payable (6,674)

Decrease in accrued wages and benefits payable (24,575)

Decrease in prepaid expenses 54,900

Decrease in payroll liabilities (23,872)

Total adjustments 125,678

Net cash used for operating activities (\$210,055)

See accompanying notes to the basic financial statements.

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Horizon Science Academy Cleveland Middle School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2009

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Horizon Science Academy Cleveland Middle School (the School), is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in grades six through eight in Cleveland. 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 Educational Service Center (the Sponsor) for a period of five years commencing November 19, 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 21 full and part time personnel who provide services to up to 150 students during the year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the School have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) 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 or interpretations issued after November 30, 1989. The more significant of the School's accounting policies are described below.

A. Basis of Presentation

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

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

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the School are included on the Statement of Net Assets.

Horizon Science Academy Cleveland Middle School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting (Continued)

The Statement of Revenues, Expenses, and Change in Net Assets present increases (e.g., revenues) and decreases (e.g., expenses) in total net assets. The Statement of Cash Flows provides information about how the School finances 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 five-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 five-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 2009.

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 for inventory assets at \$1,000. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. The threshold for capitalized improvements (including labor, equipment and materials) is \$10,000. The School 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	3 to 10 years
Heavy Duty Office or Classroom Furniture	5 to 10 years
Computers and Other Electronic Equipment	3 to 5 years
Vehicles	3 to 10 years

Horizon Science Academy Cleveland Middle School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Intergovernmental Revenues

The School currently participates in the State Foundation Program, Special Education Program, and the Comprehensive Continuous Improvement Plan (CCIP). 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 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 these definitions are reported as non-operating.

H. Compensated Absences

School policy indicates that full-time employees are entitled up to eight days of sick or personal leave per year. Full time employees who do not use all of their sick or personal days within the year will receive \$100 for each unused day. 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 consist 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 School or through external restrictions imposed by creditors, grantors, or contracts. The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. At fiscal year end June 30, 2009, the School had no restricted net assets.

J. Estimates

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

Horizon Science Academy Cleveland Middle School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2009

3. DEPOSITS

As of June 30, 2009, the School's bank balance of \$97,587 was covered by FDIC.

Custodial credit risk is the risk that in the event of a bank failure, the School'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, 2009, was as follows:

Capital Assets				
	Balance			Ending
	<u>July 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2009</u>
Furniture and Equipment – Instr.	\$139,928	\$10,996	\$0	\$ 150,924
Furniture and Equipment –Office	55,789	4,391	0	60,180
School Vehicle	15,351	16,005	15,351	16,005
Total Fixed Assets	211,068	31,392	15,351	227,109
Less: Accumulated Depreciation	(79,338)	(34,726)	(4,096)	(109,968)
Net Fixed Assets	\$131,730	\$(3,334)	\$ 11,255	\$117,141

5. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Plan Description - The School contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments; and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current schools rate is 14 percent of annual covered payroll. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among the four funds (Pension

Horizon Science Academy Cleveland Middle School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2009

5. DEFINED BENEFIT PENSION PLANS (Continued)

A. School Employees Retirement System (Continued)

Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the system. For the fiscal year 2009, 9.09 percent of annual covered salary was the portion used to fund pension and death benefits. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The remaining 4.91 percent of the 14 percent employer contribution rate was allocated to the Health Care and Medicare B Funds. The School's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2009, 2008 and 2007 were \$8,058, \$15,072 and \$8,163 respectively; and 100 percent has been contributed for fiscal years 2009, 2008 and 2007.

B. State Teachers Retirement System

Plan Description – The School participates in the State Teachers Retirement System of Ohio (STRS Ohio) a cost-sharing, multiple employer public employee retirement 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 East Broad Street, Columbus, Ohio 43215-3371, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy – For fiscal year ended June 30, 2009, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

Horizon Science Academy Cleveland Middle School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2009

5. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2009, 2008 and 2007 were \$89,314, \$108,015 and \$59,724 respectively; 100 percent has been contributed for fiscal years 2009, 2008 and 2007.

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 have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2009, 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. School Employee Retirement System

Plan Description – The School participates in two cost-sharing, multiple employer defined benefit OPEB plans administered by the School Employees Retirement Systems for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with the Internal Revenue Code Section 401h. For 2009, 4.16 percent of covered payroll was allocated to health care. In addition employers pay a surcharge for employees earning less than an actuarially determined amount; for 2009, this amount was \$35,800.

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

The School's contributions for health care for the fiscal year ended June 30, 2009, was \$926.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2009, this actuarially required allocation was 0.75 percent of covered payroll. The School's contributions for Medicare Part B for the fiscal years ended June 30, 2009, 2008, and 2007 were \$1,062, \$811 and \$197 respectively, which equaled the required contribution for those fiscal years.

Horizon Science Academy Cleveland Middle School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2009

6. POSTEMPLOYMENT BENEFITS (Continued)

B. School Teachers Retirement System

Plan Description – The School contributes to the cost sharing, multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions. For 2009, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School's contributions for health care for the fiscal years ended June 30, 2009, 2008, and 2007 were \$5,616, \$9,066, and \$4,595 respectively; and 100 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

7. 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 2009, the School contracted with Great American Insurance Company for property and general liability insurance with a \$1,000,000 single occurrence limit and \$2,000,000 annual aggregate and no deductible. There has been no reduction in coverage from the prior year. There have been no settlements exceeding coverage.

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.

8. EMPLOYEE MEDICAL AND DENTAL BENEFITS

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

Horizon Science Academy Cleveland Middle School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2009

9. PURCHASED SERVICES

Purchased service expenses during fiscal year 2009 were as follows:

<u>Type</u>	<u>Amount</u>
Professional Services	\$262,197
Rent and Property Services	174,843
Administrative Travel	4,797
Advertising and Communications	16,600
Pupil Transportation	1,063
Total	<u>\$459,500</u>

10. OPERATING LEASES

The School entered into a lease agreement with Horizon Science Academy of Cleveland on January 1, 2006 for five years for the modular building located at 6100 South Marginal Road, , Cleveland, OH 44109. The monthly lease was \$11,500. Payments totaled \$143,500 for fiscal year 2009. The School also entered into a lease agreement with Breeze Inc, for the Elementary School building on September 1, 2007 for ten years. The monthly lease payment is \$12,500. The School does not have rent obligations.

11. CAPITALIZED LEASE – LESSEE DISCLOSURE

The School entered into a capital lease agreement for a copy machine/printer in the fiscal year ending June 30, 2006. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risk of ownership to the lessee. The capital lease was recorded at the present value of the future minimum lease payments as of the inception date. Principal payments made during fiscal year 2009 total \$3,118.

The following is a schedule of the future minimum lease payments required under the capital lease as of June 30, 2009

	<u>Total Payment</u>	<u>Interest</u>	<u>Principal</u>
2010	\$3,600	\$283	\$3,317
2011	2,816	74	2,742
Totals	<u>\$6,416</u>	<u>\$357</u>	<u>\$6,059</u>

Horizon Science Academy Cleveland Middle School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2009

12. CONTINGENCIES

A. Grants

The School received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the School. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the School. In fiscal year 2009, the School received grants from State and Federal agencies total of \$220,376.

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.

13. SPONSORSHIP AGREEMENT

On November 19, 2004, Lucas County Educational Service Center assumed responsibility for sponsorship of the School. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. On May 2, 2007, the original contract was extended until June 30, 2012. According to the contract, the School pays one percent of its foundation revenues to the Sponsor. This rate will be increased to 1.5 percent as of July 1, 2009. In fiscal year 2009, the School's compensation to the Sponsor was \$10,787.

14. MANAGEMENT COMPANY AGREEMENT

In January 2005, the School contracted with Concepts Schools, Inc. to serve as the School's management company. The contract is renewed automatically every year in one year terms unless the School or the management company decides otherwise. According to the contract, the School transfers 10 percent of the funds received from the State. In fiscal year 2009, the School paid fees amount of \$107,569 to Concept Schools for management services.

15. 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.

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Mary Taylor, CPA

Auditor of State

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

Horizon Science Academy Cleveland Middle School
Cuyahoga County
6100 South Marginal Road
Cleveland, Ohio 44103

To the Board of Trustees:

We have audited the financial statements of the Horizon Science Academy Cleveland Middle School, Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2009, and have issued our report thereon dated April 30, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the School's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School's internal control over financial reporting.

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

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

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

We noted certain matters that we reported to the School's management in a separate letter dated April 30, 2010.

Compliance and Other Matters

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

We did note certain noncompliance or other matters that we reported to the School's management in a separate letter dated April 30, 2010.

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

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

April 30, 2010



Mary Taylor, CPA

Auditor of State

Independent Accountants' Report on Applying Agreed-Upon Procedures

Horizon Science Academy Cleveland Middle School
Cuyahoga County
6100 S. Marginal Road
Cleveland, Ohio 44103

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether Horizon Science Academy Cleveland Middle School (the School) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board has not adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666(B).

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and School's sponsor and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

April 30, 2010



Mary Taylor, CPA
Auditor of State

HORIZON SCIENCE ACADEMY CLEVELAND MIDDLE SCHOOL

CUYAHOGA 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 22, 2010**