

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

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2008



Mary Taylor, CPA
Auditor of State

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

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Horizon Science Academy Denison Middle School
Cuyahoga County
1700 Denison Avenue
Cleveland, Ohio 44109

To the Board of Trustees:

We have audited the accompanying basic financial statements of the Horizon Science Academy Denison Middle School, Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Horizon Science Academy Denison Middle School, Cuyahoga County, Ohio, as of June 30, 2008, and the changes in financial position and its cash flows for the year 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 May 21, 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 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

May 21, 2010

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)**

The discussion and analysis of Horizon Science Academy Denison Middle School, Inc.'s (the School) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2008. Readers should also review the financial statements and notes to enhance their understanding of the School's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2008 are as follows:

- Total net assets increased by \$145,268
- Total operating revenues were \$1,924,147.
- Total operating expenses were \$2,448,958.

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 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 / Accumulate Deficit and the Statement of Revenues, Expenses and Change in Net Assets, 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 / Accumulate Deficit – 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 Change in Net Assets 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.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED
(Continued)**

Table 1 provides a summary of the School's Net Assets / Accumulated Deficit for fiscal years 2008 and 2007.

**Table 1
Net Assets / Accumulate Deficit**

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 14,169	\$ -
Intergovernmental receivable	22,384	28,231
Total Current Assets	36,553	28,231
Non-Current Assets:		
Capital Assets (Net of Accumulated Depreciation)	217,791	234,898
Total Assets	254,344	263,129
LIABILITIES & EQUITY		
Current Liabilities:		
Accrued Interest	828	1,271
Accounts Payable	86,220	157,286
Accrued Wages	88,524	131,996
Compensated Absences	-	11,150
Payroll Liabilities	16,476	(6,696)
Notes Payable	81,619	128,810
Overdraft Liability	-	3,901
Total Current Liabilities	273,667	427,718
NET ASSETS		
Investment in Capital Assets	217,791	234,898
Unrestricted	(237,113)	(399,488)
Total Net Assets/Accumulated Deficit	\$ (19,322)	\$ (164,590)

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED
(Continued)**

Table 2 provides a comparison of the School's Revenues, Expenses and Change in Net Assets/Accumulated Deficit for fiscal years 2008 and 2007.

**Table 2
Revenues, Expenses and Change in Net Assets**

	June 30, 2008	June 30, 2007
Operational Income/Expense		
Income		
Foundation Payments	\$ 1,863,020	\$ 1,706,114
Food Services	6,224	2,502
Extracurricular Activities	9,360	4,494
Classroom Fees	26,342	29,347
Commissions	2,650	3,108
Misc Local Revenue	16,551	23,734
Total Operational Income	1,924,147	1,769,299
Expense		
Salaries	1,001,368	977,659
Benefits	198,836	179,377
Purchased Services	941,433	827,475
Supplies & Materials	180,550	99,405
Other Objects	53,769	27,905
Depreciation Expense	73,002	63,305
Total Operational Expense	2,448,958	2,175,126
Net Operational Income (Loss)	(524,811)	(405,827)
Non-Operational Income/Expense		
Restricted Grant-In-Aid- Federal	546,473	248,974
Restricted Grant In-Aid- State	7,995	3,000
Contributions and Donations		230,000
Management Fee Forgiven	123,608	
Interest Expense	(7,997)	(13,801)
Net Non-Operational Income	670,079	468,173
Net Assets		
Change in Net Assets/Accumulated Deficit	145,268	62,346
Net Assets/Accumulated Deficit at Beginning of Year	(164,590)	(226,936)
Net Assets/Accumulated Deficit at End of Year	\$ (19,322)	\$ (164,590)

HORIZON SCIENCE ACADEMY DENISON MIDDLE SCHOOL
CUYAHOGA COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED
(Continued)

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

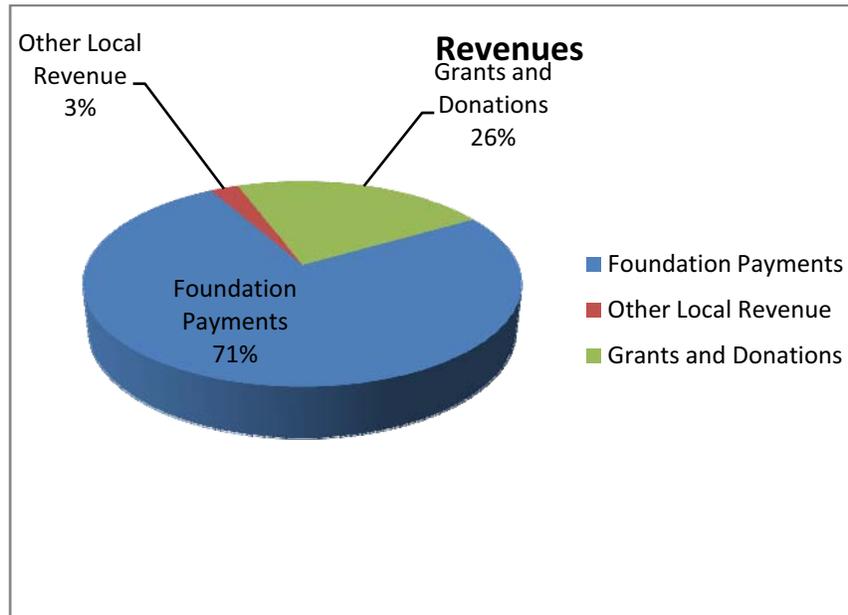
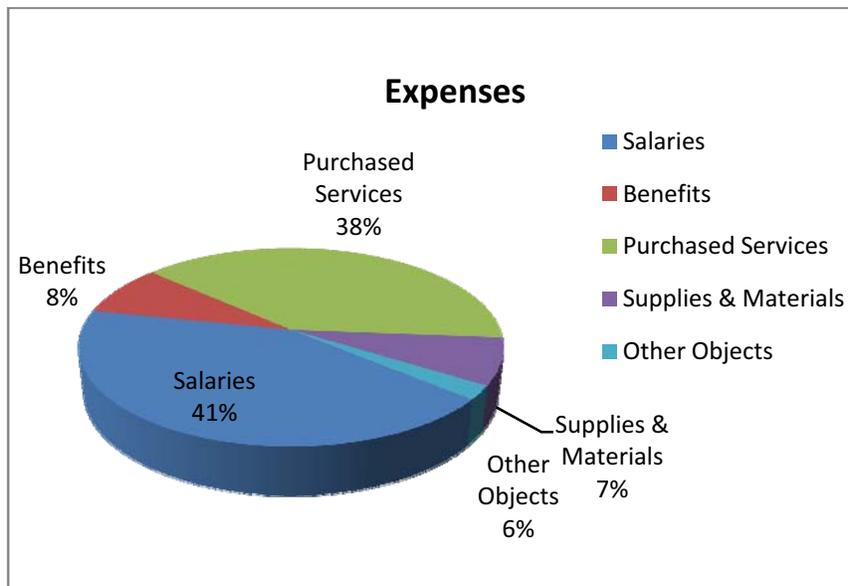


Table 4 shows the distribution of expenses in Fiscal Year 2008.



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED
(Continued)**

Capital Assets

Table 5 shows the Capital Assets net of Accumulated Depreciation.

Capital Assets				
	Balance			Ending
	July 1, 2007	Additions	Deletions	June 30, 2008
Leasehold Improvements	\$ 171,347	\$ -	\$ -	\$ 171,347
Furniture and Equipment	185,309	55,896	-	241,205
Total Fixed Assets	356,656	55,896	-	412,552
Less: Accumulated Depreciation	(121,758)	(73,002)	-	(194,760)
Net Fixed Assets	\$ 234,898	\$ (17,106)	\$ -	\$ 217,792

Debt

The School entered into a promissory note with the Horizon Educational Services and National City Bank. As of June 30, the School has outstanding note balances as follows.

Table 6

<u>Outstanding Note Balances</u>		
	<u>2007</u>	<u>2008</u>
HSA Cleveland	\$117,350	\$76,457
National City Bank	11,460	5,162
Total	<u>\$128,810</u>	<u>\$81,619</u>

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 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 Gourdov, Treasurer, Horizon Science Academy Denison Middle School, Inc. 1700 Denison Ave, Cleveland, OH 44109.

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HORIZON SCIENCE ACADEMY DENISON MIDDLE SCHOOL
CUYAHOGA COUNTY

Statement of Net Assets/Accumulated Deficit
June 30, 2008

	<u>June 30, 2008</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 14,169
Intergovernmental receivable	22,384
	<hr/>
Total Current Assets	36,553
Non-Current Assets:	
Capital Assets (Net of Accumulated Depreciation)	217,791
	<hr/>
Total Assets	<u>254,344</u>
LIABILITIES & EQUITY	
Current Liabilities:	
Accrued Interest	828
Accounts Payable	86,220
Accrued Wages	88,524
Payroll Liabilities	16,476
Notes Payable	81,619
	<hr/>
Total Liabilities	<u>273,667</u>
NET ASSETS	
Investment in Capital Assets	217,791
Unrestricted	(237,113)
	<hr/>
Total Net Assets/Accumulated Deficit	<u><u>\$ (19,322)</u></u>

See accompanying notes the basic financial statements

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

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

	<u>June 30, 2008</u>
Operational Income/Expense	
Income	
Foundation Payments	\$ 1,863,020
Food Services	6,224
Extracurricular Activities	9,360
Classroom Fees	26,342
Commissions	2,650
Misc Local Revenue	16,551
Total Operational Income	<u>1,924,147</u>
Expense	
Salaries	1,001,368
Benefits	198,836
Purchased Services	941,433
Supplies & Materials	180,550
Other Objects	53,768
Depreciation Expense	73,003
Total Operational Expense	<u>2,448,958</u>
Net Operational Income (Loss)	(524,811)
Non-Operational Income/Expense	
Restricted Grant-In-Aid - Federal	546,473
Restricted Grant In-Aid - State	7,995
Management Fee Forgiven	123,608
Interest Expense	(7,997)
Net Non-Operational Income	<u>670,079</u>
Net Assets	
Change in Net Assets	145,268
Net Assets at Beginning of Year	(164,590)
Net Assets/Accumulated Deficit at End of Year	<u><u>\$ (19,322)</u></u>

See accompanying notes the basic financial statements

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

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

Cash Flows from Operating Activities	
Cash Received from State of Ohio	\$ 1,863,020
Cash Received from Other Operating Revenues	61,127
Cash Payments to Suppliers for Goods and Services	(1,123,211)
Cash Payments to Employees for Services	(1,055,990)
Cash Payments for Employee Benefits	(175,664)
Net Cash Used for Operating Activities	(430,718)
Cash Flows from Noncapital Financial Activities	
Federal Grants Received	552,320
State Grants Received	7,995
Net Cash Provided by Noncapital Financial Activities:	560,315
Cash Flows from Capital and Related Activities	
Payments for Capital Acquisitions	(55,896)
Principal Payments	(47,191)
Interest Payments	(8,440)
Net Cash Used for Capital and Related Activities	(111,527)
Net Increase in Cash and Cash Equivalents	18,070
Cash and Cash Equivalents at Beginning of Year	(3,901)
Cash and Cash Equivalents at End of Year	\$ 14,169

See accompanying notes the basic financial statements

HORIZON SCIENCE ACADEMY DENISON MIDDLE SCHOOL
CUYAHOGA COUNTY

Statement of Cash Flows
For The Fiscal Year Ended June 30, 2008
(Continued)

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

Net Operating Income (Loss)	\$ (524,811)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities	
Depreciation	73,003
Management Fee Forgiven	123,608
Changes in Assets and Liabilities	
Decrease in Accounts Payable	(71,067)
Decrease in Accrued Wages	(54,622)
Increase in Payroll Liabilities	23,171
Total Adjustments	<u>94,093</u>
Net Cash Used for Operating Activities	<u>\$ (430,718)</u>

Non-cash Items: During the fiscal year ended June 30, 2008, management fees of \$123,608 were forgiven and not included in the cash transactions.

See accompanying notes the basic financial statements

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

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

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Horizon Science Academy Denison Middle School, 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 K through 8 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 Education 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 at the time was staffed by 32 full and part time personnel who provided services to up to 280 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/Accumulated Deficit; a Statement of Revenues, Expenses, and Changes in Net Assets; and a Statement of Cash Flows.

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

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

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

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. Any investment with an original maturity less than 90 days is considered a cash equivalent and any investment with an original maturity greater than 90 days is considered an investment. The School did not have any investments during fiscal year 2008.

E. 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.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Intergovernmental Revenues (Continued)

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.

F. 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.

G. Compensated Absences

School policy indicates that all full time employees are entitled to eight days of sick/personal days in a school year. All leave earned by employees must be used within the current school year and cannot be transferred to the next school year. At the end of the year employees are awarded \$100 per each unused sick/personal day.

H. 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 lesser as part of the School's lease agreement.

I. 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 DENISON MIDDLE SCHOOL
CUYAHOGA COUNTY**

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

3. DEPOSITS

At June 30 2008, the carrying book balance of the School's bank account at National City Bank was \$14,169 and the bank balance was \$44,417. The total bank balance was insured by FDIC. The School had no investments at June 30, 2008.

4. PREPAIDS

Payments made to vendors that will benefit periods beyond June 30, 2008, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of payment and an expense is reported in the year in which benefit is received.

5. CAPITAL ASSETS

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. 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.

	<u>Useful Life</u>
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

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

Capital Assets				
	Balance			Ending
	July 1, 2007	Additions	Deletions	June 30, 2008
Leasehold Improvements	\$ 171,347	\$ -	\$ -	171,347
Furniture and Equipment	185,309	55,896	-	241,205
Total Fixed Assets	356,656	55,896	-	412,552
Less: Accumulated				
Depreciation	(121,758)	(73,003)	-	(194,761)
Net Fixed Assets	\$ 234,898	\$ (17,107)	\$ -	\$ 217,791

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

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

6. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2008, 9.16 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations to SERS for the first fiscal year ended June 30, 2008, 2007 and 2006 was \$9,078, \$6,684 and \$8,281 respectively; 100 percent has been contributed for fiscal years 2008, 2007 and 2006.

B. State Teachers Retirement System

Plan Description - The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

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

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

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

6. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

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

Funding Policy - For the fiscal year ended June 30, 2008, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2007, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contribution for pension obligations to STRS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$129,156, \$98,401 and \$127,161 respectively; 95.13 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2008, no members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

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

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

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

7. POSTEMPLOYMENT BENEFITS (Continued)

A. School Employee Retirement System (Continued)

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care.

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

The School's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$8,944, \$7,328, and \$10,081 respectively; 100 percent has been contributed for fiscal years 2008, 2007 and 2006.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2008, this actuarially required allocation was 0.66 percent of covered payroll. The School's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 were \$1,412, \$1,923, and \$2,582 respectively; 100 percent has been contributed for fiscal years 2008, 2007 and 2006.

B. State 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 post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$7,874, \$7,569, and \$8,973 respectively; 100 percent has been contributed for fiscal years 2008, 2007 and 2006.

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

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

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 2008, the School contracted with Auto Owner 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 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.

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 2008 were as follows:

Purchased Services	
Type	Amount
Professional Services	\$ 369,929
Rent and Property Services	455,774
Administrative Travel	1,760
Advertising and Communications	109,953
Pupil Transportation	4,017
Total	\$ 941,433

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

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

11. NOTES PAYABLE

Note payable activity during fiscal year 2009 was as follows:

Notes Payable			
	Balance	Payments Made	
		During	Ending
		July 1, 2007	the Fiscal Year
Horizon Educational Services	\$ 117,350	\$ 40,893	\$ 76,457
National City Bank	11,460	6,298	5,162
Total	\$ 128,810	\$ 47,191	\$ 81,619

The School entered into a promissory note with Horizon Science Academy – Cleveland on August 1, 2005, in the amount of \$250,000, at an interest rate of 6.5 percent. The note was used to pay for general operations of the Academy. The note was renegotiated on February, 2008 with modified repayment terms and forgiveness of past due interest. The amount of calculated forgiven interest from origination of the loan was \$828

The Academy entered into a promissory note with National City Bank. The loans were used to pay for a school van of the Academy.

Amortization of the above debt is scheduled as follows:

For the Fiscal Year Ended June 30	Principal	Interest	Total
2009	\$26,315	\$3,133	\$29,448
2010	\$33,721	\$2,370	36,091
2011	<u>21,583</u>	<u>589</u>	<u>22,172</u>
Total	<u>\$81,619</u>	<u>\$6,092</u>	<u>\$87,711</u>

12. OPERATING LEASES

The School entered into an operating lease in fiscal year 2006 for school facilities on 1700 Denison Ave, Cleveland, OH 44109 with Breeze Inc. The unpaid balances \$48,400 were recorded under accounts payable as of June 30, 2008.

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

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

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. 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 \$554,468.

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.

14. 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. According to a contract agreed by both parties, the School pays 1% of its foundation revenues to the Sponsor.

15. MANAGEMENT COMPANY AGREEMENT

A management agreement was entered into on January 1, 2005 with Concept Schools (CS), an Illinois non-profit corporation. The services to be provided include, but are not limited to, human resources, board development, strategic planning, technology support, facility management, curriculum development, and purchasing services. The contract is for one year and will renew automatically until terminated by either party. The fees for the above services are 10% of the fees received from the state. For the fiscal year 2008 the School paid \$166,179 to Concept Schools for Management services. Management Company waived management fees in the amount of \$123,806.

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.



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 Denison Middle School
Cuyahoga County
1700 Denison Avenue
Cleveland, Ohio 44109

To the Board of Trustees:

We have audited the basic financial statements of the Horizon Science Academy Denison Middle School, Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2008, and have issued our report thereon dated May 21, 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

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.

We consider finding numbers 2008-001 and 2008-002 described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting.

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 believe none of the significant deficiencies described above is a material weakness.

We also noted certain internal control matters that we reported to the School's management in a separate letter dated May 21, 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 that we must report under *Government Auditing Standards*.

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



Mary Taylor, CPA
Auditor of State

May 21, 2010

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

**SCHEDULE OF FINDINGS
FOR THE PERIOD ENDED JUNE 30, 2008**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER	2008-001
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Developing and Implementing an Effective Monitoring Control System

Monitoring controls are comprised of regular management and supervisory activities established to oversee whether management's objectives are being achieved. Effective monitoring controls should assist management in assessing the quality of internal control performance over time. This process involves assessing the design and operation of controls on a timely basis and taking necessary corrective actions. Monitoring controls should assist management in identifying unexpected results and/or possible misstatements.

Some effective monitoring controls include:

- Review of revenues and expenses with independently accumulated information (budgets, past performances, peer group representatives, etc.);
- Review of the initial budget, all amendments, and final budget to actual performance;
- Review of large or unusual transactions;
- Identification of unusual fluctuations;
- Comparison of predefined key performance indicators based on the financial statements;
- Review of items which have been outstanding for extended periods of time (outstanding check listing for payroll and non payroll transactions);
- Monitoring compliance with grant agreements and the Sponsor contract;
- Ensuring that an adequate segregation of duties exists; and
- Review payroll reports to the payroll checks prepared.

The lack of effective monitoring controls could lead to the misallocation or misstatement of School funds, expenditure of funds contrary to the directives of the governing board, non-compliance with federal or state laws or regulations, which could result in a loss of funding from these sources, and errors or irregularities occurring in financial transactions affecting the bank reconciliations which go undetected.

We recommend that management prepare monthly financial statements and submit them to the Board at each regularly scheduled meeting. The Board should then review these financial statements and when satisfied as to their accuracy approve them through the minute records. In addition, management should ensure that any reports required by the grantor agencies, per the terms of grant agreements, are completed accurately and filed with the respective grantor agencies in a timely manner. Management should also ensure that proper segregation of duties exists, including an independent review of the monthly bank reconciliations.

Official's Response:

The School appreciates the Auditor's office assistance in reviewing current school procedures and internal controls. The School understands more fully now the potential risks and is implementing additional internal controls to address these risks.

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

**SCHEDULE OF FINDINGS
FOR THE PERIOD ENDED JUNE 30, 2008**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER	2008-002
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Documentation of Expenses

During our test of vouchers for the checking account, we noted the following issues:

- The School paid the Internal Revenue Service \$1,116 for late fees, interest and penalty charges;

During our test of payroll contracts, we noted the following issue:

- Contracts could not be located for 3 of the 60 employees tested (5%)

A lack of internal controls increases the risk that theft, fraud, or errors could occur and not be detected in a timely manner. Furthermore, failure to accurately review disbursements:

- Reduces the accountability over School funds;
- Reduces the Board's ability to monitor financial activity and make informed financial decisions;
- Increases the likelihood that moneys will be misappropriated and not detected, and;
- Increases the likelihood that the School's financial statements will be misstated.

A good internal control system includes procedures to help ensure management receives and processes accurate information as well as mitigate fraud, theft, or errors going unresolved.

When designing the Schools system of internal control and the specific control activities, management should consider the following:

- Ensure proper authorization of all transactions in accordance with management's policies.
- Ensure proper design and maintenance of all School records.
- Verify the existence and valuation of disbursements and periodically reconcile them to the accounting records.

All contracts should be available to support the amounts paid. No check should be signed, unless it is supported by a requisition, purchase order, detailed receipt or invoice to ensure that the expenditures are allowable and properly approved.

Official's Response:

The School appreciates the Auditor's office assistance in reviewing current school procedures and internal controls. The School understands more fully now the potential risks and is implementing additional internal controls to address the maintenance of records.

HORIZON SCIENCE ACADEMY DENISON MIDDLE SCHOOL
CUYAHOGA COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE PERIOD ENDED JUNE 30, 2008

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2007-001	Material Weakness Lack of controls over disbursements.	No	Repeated as 2008-001



Mary Taylor, CPA
Auditor of State

HORIZON SCIENCE ACADEMY DENISON 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**