



Dave Yost • Auditor of State

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

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INDEPENDENT ACCOUNTANTS' REPORT

Horizon Science Academy of Cleveland
Cuyahoga County
6000 South Marginal Road
Cleveland, Ohio 44103

To the Board of Directors:

We have audited the accompanying basic financial statements of the Horizon Science Academy of Cleveland, Cuyahoga County, Ohio, (the Academy) 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 Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 of Cleveland, 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 January 11, 2011, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of 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.

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

January 11, 2011

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

Management's Discussion and Analysis
For the Year Ended June 30, 2008
Unaudited

The discussion and analysis of Horizon Science Academy of Cleveland (HSAC) provides an overall review of the School's financial activities for the fiscal year ended June 30, 2008. The intent of the discussion and analysis is to look at HSAC's financial performance as a whole: readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of HSAC's financial performance.

Financial Highlights

Key financial highlights affecting 2008 are as follows:

Total assets decreased by \$241,293, which represents a 14.3 percent decrease from 2007. This decrease is due to a decrease in cash of \$148,256, a decrease in receivables of \$77,477 and an increase in accumulated depreciation. The receivables include funds loaned to other charter schools.

Total liabilities decreased \$15,018, which represents a 1.8 percent decrease from 2007. Payments on the mortgage note accounted for the majority of the decrease.

Total Operating Revenues totaled \$2,891,900.

Operating expenses increased by \$420,670, which represents a 13.4 percent increase from 2007. Operating expense increases are due to an increase in salaries and fringe benefits.

Using this Financial Report

This annual report consists of financial statements and notes to those statements. These statements are organized so the reader can understand HSAC as a financial whole.

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets provide information about the activities of HSAC.

Statement of Net Assets and Statements of Revenues, Expenses and Changes in Net Assets

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets answer the question, "How did we do financially during 2008?" These statements include all assets and liabilities using the accrual basis of accounting. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received.

These statements report HSAC's net assets and the change in those assets. Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

Management's Discussion and Analysis
For the Year Ended June 30, 2008
Unaudited
(Continued)

Table 1 provides a summary of HSAC's net assets as of June 30, 2008 and 2007.

**Table 1
NET ASSETS**

<u>Assets:</u>	<u>June 30, 2008</u>	<u>June 30, 2007</u>
<u>Current Assets:</u>		
Cash and Cash equivalents	\$ 32,316	\$ 180,572
Receivables	518,249	595,726
Total Current Assets	<u>550,565</u>	<u>776,298</u>
<u>Non-Current Assets:</u>		
Capital Assets (Net of Accumulated Depreciation)	<u>899,347</u>	<u>914,907</u>
Total Assets	<u>1,449,912</u>	<u>1,691,205</u>
<u>Liabilities and Equity:</u>		
<u>Current Liabilities:</u>		
Accounts Payable	14,664	1,511
Intergovernmental Payable	9,845	25,833
Notes Payable Short-Term	50,000	0
Accrued Payroll	251,849	197,472
Total Current Liabilities	<u>326,358</u>	<u>224,816</u>
<u>Long Term Liabilities</u>		
Mortgage Note Payable	<u>483,478</u>	<u>600,038</u>
Total Long Term Liabilities	<u>483,478</u>	<u>600,038</u>
Total Liabilities	<u>809,836</u>	<u>824,854</u>
<u>Net Assets</u>		
Investment in Capital Assets, net of related debt	415,869	314,869
Unrestricted	<u>(105,884)</u>	<u>219,998</u>
Total Net Assets	<u>\$ 309,985</u>	<u>\$ 534,867</u>

Receivables decreased \$77,477 from repayments on a loan to other charter schools.

Total Current Liabilities of \$326,358 increased by \$101,542 mainly from an increase of accrued payroll and a short-term note.

Total net assets totaled \$309,985 which was a decrease of \$224,882.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

Management's Discussion and Analysis
For the Year Ended June 30, 2008

Unaudited
(Continued)

Table 2 shows the changes in net assets for the years ended June 30, 2008 and 2007.

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

	FOR THE YEAR ENDED	
	June 30, 2008	June 30, 2007
<u>Operating Revenues:</u>		
Foundation Payments	\$ 2,715,818	\$ 2,541,452
Other Operating Revenue	176,082	157,930
	2,891,900	2,699,382
<u>Operating Expenses:</u>		
Salaries	1,872,050	1,585,849
Fringe Benefits	400,115	340,423
Purchased Services	894,075	846,219
Materials and Supplies	187,210	154,276
Depreciation	71,576	63,744
Interest Expense	37,744	62,783
Other Operating Expenses	86,614	72,520
	3,549,384	3,128,714
<i>Total Operating Expenses</i>		
Operating loss	(657,484)	(429,332)
<u>Non-Operating Revenues</u>		
Federal and State Grants	260,666	330,731
Contributions and Donations	6,580	4,410
Investment Earnings	16,356	25,946
Rental Income	149,000	193,000
	432,602	554,087
<i>Total Non-Operating Revenues</i>		
<u>Net Assets</u>		
Change in Net Assets	(224,882)	(124,755)
Total Net Assets at Beginning of Year	534,867	410,112
Total Net Assets at End of Year	\$ 309,985	\$ 534,867

Foundation payments accounted for 94 percent of the Operating Revenues. Community school foundation payments are received from the Ohio Department of Education (ODE) based on various student enrollment data submitted to ODE throughout the school year.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

Management's Discussion and Analysis
For the Year Ended June 30, 2008
Unaudited
(Continued)

Operating expenses for 2008 totaled \$3,549,384, which represents an increase of \$420,670 over the prior year. The majority of the increase is in salaries and fringe benefits (\$345,893), and purchased services expense (\$47,856).

Table 3 reflects capital assets, net of accumulated depreciation, as of June 30, 2008 and 2007.

**Table 3
Capital Assets (Net of Accumulated Depreciation)**

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Building and Improvements	\$ 760,917	\$ 781,994
Furniture and Equipment	122,935	114,835
Vehicles	15,495	18,078
Total	<u><u>899,347</u></u>	<u><u>914,907</u></u>

HSAC's investment in capital assets for its activities as of June 30, 2008 amount to \$899,347.

Contacting HSAC's Financial Management

The financial report is designed to provide all interested parties with a general overview of HSAC's finances. If you have any questions about this report or need additional information, contact HSAC's Treasurer, Aman Gurdov, at Horizon Science Academy of Cleveland, 6000 South Marginal Road, Cleveland, Ohio 44103 and phone number 216-432-3660.

Horizon Science Academy of Cleveland
Statement of Net Assets
For the Fiscal Year Ended June 30, 2008

ASSETS:

Current Assets:

Cash and cash equivalents	\$32,316
Receivables:	
Accounts Receivable	196,164
Notes Receivable	297,758
Interest Receivable	<u>24,327</u>
Total Receivables	<u>518,249</u>
Total Current Assets	550,565

Noncurrent Assets:

Depreciable capital assets (Net of Accumulated Depreciation)	<u>899,347</u>
Total assets	<u>1,449,912</u>

LIABILITIES:

Current Liabilities:

Accounts payable	14,664
Accrued wages and benefits payable	251,849
Notes Payable	50,000
Intergovernmental payable	<u>9,845</u>
Total current liabilities	<u>326,358</u>

Noncurrent Liabilities:

Mortgage Notes Payable (Modular Buildings)	<u>483,478</u>
Total noncurrent liabilities	<u>483,478</u>
Total liabilities	<u>809,836</u>

NET ASSETS:

Invested in capital assets, net of related debt	415,869
Unrestricted	<u>(105,884)</u>
Total net assets	<u><u>\$309,985</u></u>

See accompanying notes to the basic financial statements.

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

OPERATING REVENUES:

Foundation payments	\$2,715,818
Instructional fees	70,258
Extracurricular activities	27,987
Other revenue	<u>77,837</u>
Total operating revenues	<u>2,891,900</u>

OPERATING EXPENSES:

Salaries	1,872,050
Fringe benefits	400,115
Purchased services	894,075
Materials and supplies	187,210
Depreciation	71,576
Interest Payments	37,744
Other Operating Expenses	<u>86,614</u>
Total operating expenses	<u>3,549,384</u>

Operating loss	<u>(657,484)</u>
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NON-OPERATING REVENUES:

Contributions and Donations	6,580
Restricted grants in aid - federal	235,098
Restricted grants in aid – state	25,568
Investment Earnings	16,356
Rental Income	<u>149,000</u>

Total non-operating revenues (expenses)	<u>432,602</u>
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Change in net assets	(224,882)
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Net assets, beginning of year	<u>534,867</u>
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Net assets, end of year	<u><u>\$309,985</u></u>
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See accompanying notes to the basic financial statements.

Horizon Science Academy of Cleveland

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2008

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash Received from State of Ohio	\$2,699,830
Cash Received from Other Operating Revenues	176,082
Cash Payments to Suppliers for Goods and Services	(1,069,526)
Cash Payments to Employees for Services and Benefits	(2,217,787)
Other Cash Payments	<u>(124,358)</u>

Net Cash Used for Operating Activities (535,759)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Contributions and Donations	6,580
Federal and State Grants Received	<u>265,081</u>

Net Cash Provided by Noncapital Financing Activities 271,661

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Payments for Capital Acquisitions	(56,016)
Payment of Mortgages	(116,560)
Short-Term Note Payable payment from Cleveland Middle School	<u>50,000</u>

Net Cash Used for Capital and Related Financing Activities (122,576)

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest Earned on Note Receivable	13,642
Payments on Notes Receivable	88,776
Short-Term Note Receivable payment to Noble Academy	(30,000)
Rental Income	<u>166,000</u>

Net Cash Provided by Investing Activities 238,418

Net Increase in Cash and Cash Equivalents (148,256)

Cash and cash equivalents at beginning of year 180,572

Cash and cash equivalents at end of year \$32,316

See accompanying notes to the basic financial statements.

Horizon Science Academy of Cleveland
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2008
(Continued)

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

Operating Loss	<u>(657,484)</u>
Adjustment to Reconcile Operating Income to Net Cash Used for Operating Activities:	
Depreciation	71,576
Increase in Accounts Payable	11,759
Increase in Payroll Liabilities	33,446
Increase in Accrued Wages	20,932
Decrease in Intergovernmental Payable	<u>(15,988)</u>
Total Adjustments	121,725
Net Cash Used for Operating Activities	<u><u>\$(535,759)</u></u>

See accompanying notes to the basic financial statements.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY, OHIO**

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

NOTE 1 - DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Horizon Educational Services Incorporated (HESI) is a nonprofit corporation established January 26, 1999, pursuant to Ohio Revised Code Chapter 1702. HESI created the Horizon Science Academy of Cleveland (HSAC) as permitted under Ohio Revised Code Chapter 3314 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service that qualifies as a tax exempt organization under Section 501(c)(3) status by the Internal Revenue Service exclusively for educational purposes. These purposes include the fostering of quality public education, and the advancement of the interests of public school students through the operation of a community school, the development of innovative programs in public education and the development of systems of accountability for public school student performance. Management is not aware of any course of action or series of events that have occurred that might adversely affect the HSAC's tax-exempt status. HSAC, which is part of Ohio's education program, is independent of any school district. HSAC may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of HSAC.

The Ohio Department of Education (ODE) approved HSAC's proposal to open a community school starting with the fall of 1999. ODE initially entered into a five-year contract with HSAC. Effective July 1, 2005, HSAC entered into a five-year contract with Lucas County Educational Service Center.

HSAC operates under a 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 HSAC's instructional facility staffed by 52 personnel who provide services to 417 students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY, OHIO**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Measurement Focus

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 are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Net Assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The Statement of Cash Flows provides information about how HSAC finances and meets the cash flow needs of its enterprise activities.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the basic financial statements. HSAC's basic financial statements are prepared using the accrual basis of accounting.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded upon the accrual basis when the exchange takes place.

Revenues resulting from non-exchange transactions, in which HSAC receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the year when use is first permitted; matching requirements, in which HSAC must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to HSAC on reimbursement basis. Expenses are recognized at the time they are incurred.

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705, unless specifically provided in the contract between HSAC and its Sponsor. The contract between HSAC and its Sponsor does prescribe an annual budget requirement in addition to preparing a five-year forecast, which is to be updated on an annual basis.

E. Cash and Cash Equivalents

All monies received by HSAC are deposited in demand deposit accounts in the name of HSAC at PNC Bank formally known as National City Bank.

F. Capital Assets

Capital assets are capitalized at 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. HSAC maintains a capitalization threshold of \$1,000 for inventory assets and \$5,000 for fixtures and improvements. HSAC does not possess any infrastructure.

Improvements are also capitalized. The cost 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. All reported capital assets are depreciated.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY, OHIO**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

F. Capital Assets – (Continued)

Furniture, fixtures, vehicles, and equipment are depreciated using the straight-line method over their 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. See Footnote 15 regarding sale of the buildings and improvements.

<u>Capital Asset Classification</u>	<u>Years</u>
Building & Leasehold Improvements	39
Classroom Materials and Furniture	5 to 10
Computer and Equipment	3 to 5
Vehicles	3 to 10

G. Net Assets

Net Assets represent the difference between asset and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings 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 the enabling legislation adopted by HSAC or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. HSAC presently has no restricted net assets.

H. Intergovernmental Revenue

HSAC currently participates in the State Foundation Program, Special Education Program, and the Parity Aid Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Grants and entitlements are recognized as non-operating revenue in the accounting period in which all eligibility requirements have been met.

Eligibility includes 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 HSAC must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to HSAC on a reimbursement basis.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY, OHIO**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

I. Compensated Absences

Vacation for teaching staff is to be taken in a manner that corresponds with HSAC calendar; therefore, HSAC does not accrue vacation time as a liability.

J. Private Donations and Contributions

HSAC has received funds from individuals to support HSAC's education programs.

K. Estimates

The preparation of basic 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.

NOTE 3 - DEPOSITS AND INVESTMENTS

At June 30, 2008, the carrying amount of HSAC deposits was \$32,316 and the bank balance was \$56,493. All of the bank balance is covered by Federal Deposit Insurance Corporation.

NOTE 4 - ACCOUNTS RECEIVABLE

As a result of a building sale to Breeze Inc. in 2005, HSAC recorded an accounts receivable for \$196,164. In July 2008, the method of repayment was renegotiated as part of a new lease agreement due to construction of a gym and extra classrooms for HSAC on the premises.

NOTE 5 - NOTES RECEIVABLE

In March 2005, a loan for \$200,000, at a six percent interest rate, was made to the Horizon Science Academy – Toledo. As of July 1, 2007, the balance was \$139,184. Payments made during the fiscal 2008 totaled \$9,286 leaving an ending balance at June 30, 2008 of \$129,898.

In August 2005, a loan for \$250,000, at a 6.5 percent interest rate, was made to the Horizon Science Academy – Denison. As of July 1, 2007, the balance was \$117,350. Payments made during the fiscal year totaled \$40,893 leaving an ending balance at June 30, 2008 of \$76,457.

In January 2006, a loan for \$100,000 at a 6.5 percent interest rate was made to the Horizon Science Academy – Cincinnati. As of July 1, 2007, the balance was \$100,000. Payments made during the fiscal year totaled \$8,597 leaving an ending balance at June 30, 2008 of \$91,403.

HSAC also had a \$30,000 loan to Noble Academy in September 2007. The loan was paid off by the end of fiscal 2008.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY, OHIO**

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

NOTE 6 - CAPITAL ASSETS

A summary of the HSAC's capital assets at June 30, 2008, follows:

	Balance 06/30/07	Additions	Deductions	Balance 06/30/08
Capital Assets:				
Building and Improvements	\$ 822,000	\$ -	\$ -	\$ 822,000
Furniture, fixtures and equipment	216,927	56,016	19,308	253,635
School Buses	25,824	-	-	25,824
Total capital assets	<u>1,064,751</u>	<u>56,016</u>	<u>19,308</u>	<u>1,101,459</u>
Less: accumulated depreciation				
Building and Improvements	(40,006)	(21,077)	-	(61,083)
Furniture, fixtures and equipment	(102,092)	(47,916)	(19,308)	(130,700)
School Buses	<u>(7,746)</u>	<u>(2,583)</u>	<u>-</u>	<u>(10,329)</u>
Total accumulated depreciation	<u>(149,844)</u>	<u>(71,576)</u>	<u>(19,308)</u>	<u>(202,112)</u>
Total capital assets, Net of accumulated depreciation	<u>\$ 914,907</u>	<u>\$ (15,560)</u>	<u>\$ -</u>	<u>\$ 899,347</u>

NOTE 7 - RISK MANAGEMENT

A. Property and Liability

HSAC 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 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 over the prior year. There have been no settlements exceeding coverage in the last three years.

B. Workers' Compensation

HSAC 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.

NOTE 8 - EMPLOYEES MEDICAL AND DENTAL BENEFITS

According to HSAC policy, HSAC is required to provide Medical and Dental Insurance to all full-time employees. Fifty percent of the monthly premiums for Medical and Dental coverage are to be paid by HSAC while the remaining fifty percent are to be deducted from employee's wages.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY, OHIO**

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

NOTE 9 - CONTINGENCIES

A. Grants

HSAC received financial assistance from Federal and State agencies in the form of grants. The expense 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. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of HSAC at June 30, 2008.

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.

NOTE 10 - PENSION PLANS

A. School Employees Retirement System

Plan Description - HSAC contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at www.ohsers.org.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and HSAC is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of HSAC'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. HSAC's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007, and 2006 were \$20,955, \$17,982, and \$12,800, respectively; 80 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY, OHIO**

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

NOTE 10 - PENSION PLANS (Continued)

B. State Teachers Retirement System of Ohio

Plan Description - HSAC 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 the age of 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 the fiscal year ended June 30, 2008, plan members were required to contribute 10 percent of their annual covered salaries. HSAC 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.

HSAC's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007, and 2006 were \$238,588, \$173,570 and \$182,475, respectively; 85 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006. Contributions to the DC and Combined Plans for fiscal year 2008 were \$19,521 made by HSAC and \$22,340 made by the plan members.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY, OHIO**

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

NOTE 10 - PENSION PLANS (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2008, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages.

NOTE 11 - POSTEMPLOYMENT BENEFITS

A. School Employees 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.

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. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$2,256.

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 \$6,257, \$4,222, and \$3,956 respectively; 80 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 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 District's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 were \$988, \$769, and \$195 respectively; 80 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY, OHIO**

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

NOTE 11 - POSTEMPLOYMENT BENEFITS (Continued)

B. State Teachers Retirement System

Plan Description – HSAC 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 one percent of covered payroll to the Health Care Stabilization Fund. HSAC's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$17,042, \$14,829, and \$15,798 respectively; 85 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

NOTE 12 - PURCHASED SERVICES

For the fiscal year ended June 30, 2008, purchased service expenses were payments for services rendered by various vendors, and are as follows:

Professional Services	\$ 416,972
Rent and Property Services	350,250
Advertising and Communications	36,058
Food Services	43,269
Pupil Transportation	24,656
Staff Travel Expenses	11,800
Other Purchased Services	<u>11,070</u>
Total	<u>\$ 894,075</u>

NOTE 13 – MANAGEMENT COMPANY AGREEMENT

A management agreement was entered into on January 1, 2006 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 12 percent of the fees received from the state. For the fiscal year 2008 HSAC paid \$320,879 to Concept Schools for Management services.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY, OHIO**

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

NOTE 14 – SPONSORSHIP AGREEMENT

On November 19, 2004, HSAC entered into sponsorship agreement with Lucas County Educational Service Center. The Sponsor is responsible for evaluating the performance of HSAC 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, HSAC pays one percent of its foundation revenues to the Sponsor. In fiscal year 2008, HSAC's compensation to the Sponsor was \$28,989.

NOTE 15 – BUILDING SALE AND LEASE BACK

On December 1, 2005 an operating lease was entered into with Breeze Inc. whereby the building was leased back to HSAC. The lease calls for monthly rental payments of \$19,000 for the lease term, which ends June 30, 2009. HSAC is responsible for all repairs and maintenance of the building and the property. HSAC will also reimburse Breeze Inc. for the real estate taxes and the landlord's cost of the insurance.

The future minimum rental payments are:

Fiscal Year ending June 30, 2009	\$ 228,000
Total	<u><u>\$ 228,000</u></u>

NOTE 15 – NOTES PAYABLE

The Academy entered into a promissory note with Horizon Science Academy – Cleveland Middle School on April 11, 2008, in the amount of \$50,000, at an interest rate of 3 percent. As of June 30, 2008, no payments have been made.



Dave Yost • 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 of Cleveland
Cuyahoga County
6000 South Marginal Road
Cleveland, Ohio 44103

To the Board of Directors:

We have audited the basic financial statements of the Horizon Science Academy of Cleveland, Cuyahoga County, Ohio, (the Academy) as of and for the year ended June 30, 2008, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated January 11, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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 Academy'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 Academy'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 significant deficiencies 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 Academy's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We believe none of the significant deficiency described above is a material weakness.

We also noted certain internal control matters that we reported to the Academy's management in a separate letter dated January 11, 2010.

Compliance and Other Matters

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

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



Dave Yost
Auditor of State

January 11, 2011

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR 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 misstatement in the financial statements.

Some effective monitoring controls not used by the Academy 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 Academy 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, which would include the documents listed above for effective monitoring controls, 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. These monthly financial statements effect the preparation of the annual financial report. 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 Academy appreciates the Auditor’s office assistance in reviewing current school procedures and internal controls. The Academy understands more fully now the potential risks and is implementing additional internal controls to address these risks.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008
(Continued)**

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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Cash Collection Process

Cash collected for uniform and material fees are collected by the secretaries at the beginning of the year. As the monies are collected, the secretary prepared a two-part manual receipt, with the original part being distributed to the payer and second part maintained in the receipt book. The secretaries had 48 hours to deposit all collections with the Director. We noted all other collections, foundation remittances, grant reimbursements, collections for field trips, and all other collections were not recorded in the receipt books. The Director was responsible for depositing the funds to the bank account of the Academy.

We noted the Director did not maintain receipts or any detailed supporting documentation noting the sources of the money received and the date it was collected.

Lack of documentation of the receipt cycle could lead to misappropriation of collections, bank errors which cannot be substantiated, errors occurring between individuals who collect and remit funds and the individual depositing funds, and a lack of consistency in applying internal controls over the receipting cycle. This could lead to the fund collected not being properly deposited and credited to the appropriate revenue category.

We recommend the Academy institute a policy of preparing a receipt for all monies received from all sources. As deposits are made, a reconciliation of total receipts to deposit amount should be prepared, by someone outside of the collection/receipting process. This would provide a permanent subsidiary record of all monies received, assist in the bank reconciliation process, and help ensure the completeness of the revenue records, that are used to prepare the financial statements of the Academy.

Official's Response:

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

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2008**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Plan Taken; or Finding No Longer Valid; Explain:
2007-001	Development and Implementing an Effective Monitoring Control System	No	Reissued as 2008-001
2007-002	Cash Collection Process	No	Reissued as 2008-002

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Dave Yost • Auditor of State

HORIZON SCIENCE ACADEMY OF CLEVELAND

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
FEBRUARY 8, 2011**