



Dave Yost • Auditor of State

Horizon Science Academy Cleveland Middle School
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For the Fiscal Year Ended June 30, 2011

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Directors:

We have audited the accompanying basic financial statements of the Horizon Science Academy Cleveland Middle School, Cuyahoga County, Ohio (the Academy), as of and for the year ended June 30, 2011, 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 Cleveland Middle School, as of June 30, 2011, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2012, 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

June 22, 2012

Horizon Science Academy Cleveland Middle School

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)*

The discussion and analysis of Horizon Science Academy Cleveland Middle School's (the Academy) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2011. Readers should also review the financial statements and notes to enhance their understanding of the Academy's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2011 are as follows:

- Total assets were \$360,175.
- Total liabilities were \$86,268.
- Total net assets increased \$63,127.

Using this Financial Report

This report consists of three parts: the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Change in Net Assets, and a Statement of Cash Flows.

Reporting the Academy as a Whole

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

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

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report the activities of the Academy, which encompass all the Academy's services, including instruction, support services, community services, and food services. Unrestricted state aid and state and federal grants finance most of these activities.

Horizon Science Academy Cleveland Middle School
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)

Table 1 provides a comparison of net assets as of June 30, 2011 with net assets as of June 30, 2010.

Table 1

Net Assets

	2011	2010
<u>Assets</u>		
Current Assets	\$312,880	\$211,224
Capital Assets, Net	47,295	67,170
Total Assets	360,175	278,394
<u>Liabilities</u>		
Current Liabilities	86,268	67,614
Total Liabilities	86,268	67,614
<u>Net Assets</u>		
Invested in Capital Assets	47,295	67,170
Unrestricted	226,612	143,610
Total Net Assets	<u>\$273,907</u>	<u>\$210,780</u>

Total assets increased by \$81,781. This increase is due mainly to increase in student enrollment. Capital assets decreased by \$19,875. This decrease is due mainly to the net deletion of assets totaling \$21,700. Intergovernmental receivables decreased by \$48,548. Total liabilities increased \$18,654. This increase is due mainly to increased payroll liabilities of \$29,844.

Horizon Science Academy Cleveland Middle School
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)

Table 2 shows the changes in net assets for the fiscal years 2011 and 2010.

Table 2

Statement of Revenues, Expenses and Change in Net Assets

	June 30, 2011	June 30, 2010
OPERATING REVENUES:		
Foundation Payments	\$979,806	\$939,989
Food Services	410	2,069
Classroom Fees	10,626	16,753
Extracurricular Activities	1,750	1,188
Other Revenue	3,107	1,308
Total Operating Revenues	995,699	961,307
OPERATING EXPENSES:		
Salaries	517,905	591,848
Fringe Benefits	161,899	169,464
Purchased Services	430,766	655,776
Materials and Supplies	68,200	66,169
Depreciation	17,899	28,271
Miscellaneous	44,726	59,397
Total Operating Expenses	1,241,395	1,570,925
Operating Loss	(245,696)	(609,618)
NON-OPERATING REVENUES (EXPENSES):		
Interest Expense	(78)	(297)
Restricted Grants in Aid - Federal	322,644	425,057
Restricted Grants in Aid - State	6,497	5,883
Donated Management Fee	1,460	0
Loss on Donation of Capital Assets	(21,700)	(21,700)
Repayment of Prior Year Foundation Settlement	0	(8,810)
Prior Year Foundation Settlement	0	35
Rental Income	0	134,160
Total Non-Operating Revenues (Expenses)	308,823	534,358
Change in Net Assets	63,127	(75,260)
Net Assets, Beginning of Year	210,780	286,040
Net Assets, End of Year	\$273,907	\$210,780

Horizon Science Academy Cleveland Middle School
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)

Foundation support revenue increased by \$39,817 as a result of an increase in student enrollment and federal grant revenue decreased by 102,413, primarily as a result of a decrease in ARRA funding. The Academy also received in-kind support (donated management fee) in the amount of \$1,460 in 2011. Purchased services decreased \$225,010 also as a result of decreased need for purchased services resulting from decreased school needs.

Foundation support is the primary support of the Academy, comprising 98% of operating revenue and 74% of total revenues. The Academy also received a significant portion of federal grants, which represents 24% of total revenue. Salaries and benefits comprise the largest portion of operating expenses, representing 55% of total operating expenses. Purchased services also represent a large portion of operating expenses, or 35%. Net assets increased \$63,127 resulting from revenues in excess of expenses.

Capital Assets

At the end of fiscal year 2011, the Academy had \$154,094, invested in furniture and equipment, and school vehicle (\$47,295 net of accumulated depreciation). Table 3 shows fiscal year 2011 and fiscal year 2010:

Table 3

Capital Assets				
	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
Equipment & Furniture	\$180,770	\$19,724	\$(62,405)	\$138,089
School Vehicle	16,005	0	0	16,005
Total Fixed Assets	196,775	19,724	(62,405)	154,094
Less: Accumulated Depreciation	(129,605)	(17,899)	40,705	(106,799)
Total Fixed Assets	\$67,170	\$1,825	\$(21,700)	\$47,295

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

Contacting the Academy's Financial Management

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the Academy's finances. Questions concerning any of the information in this report or requests for additional information should be directed to Ramazan Celep, Treasurer, Horizon Science Academy Cleveland Middle School, 6100 South Marginal Road, Cleveland, OH 44103.

Horizon Science Academy Cleveland Middle School

Statement of Net Assets

For the Fiscal Year Ended June 30, 2011

ASSETS:

Current Assets:

Cash and Cash Equivalents	\$275,037
Prepaid Expenses	37,300
Note Receivable	543
Total Current Assets	<u>312,880</u>

Noncurrent Assets:

Capital Assets (Net of Accumulated Depreciation)	<u>47,295</u>
Total Assets	<u>360,175</u>

LIABILITIES:

Current Liabilities:

Accrued Wages and Benefits Payable	47,835
Payroll Liabilities	38,317
Capital Lease Payable – Due Within One Year	116
Total Current Liabilities	<u>86,268</u>

Total Liabilities	<u>86,268</u>
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NET ASSETS:

Invested in Capital Assets	47,295
Unrestricted	<u>226,612</u>
Total Net Assets	<u><u>\$273,907</u></u>

See accompanying notes to the basic financial statements.

Horizon Science Academy Cleveland Middle School
Statement of Revenues, Expenses and Change in Net Assets
For the Fiscal Year Ended June 30, 2011

OPERATING REVENUES:

Foundation Payments	\$979,806
Food Services	410
Classroom Fees	10,626
Extracurricular Activities	1,750
Other Revenue	<u>3,107</u>
Total Operating Revenues	<u>995,699</u>

OPERATING EXPENSES:

Salaries	517,905
Fringe Benefits	161,899
Purchased Services	430,766
Materials and Supplies	68,200
Depreciation	17,899
Miscellaneous	<u>44,726</u>
Total Operating Expenses	<u>1,241,395</u>

Operating Loss	<u>(245,696)</u>
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NON-OPERATING REVENUES (EXPENSES):

Interest Expense	(78)
Loss on Donation of Capital Asset	(21,700)
Restricted Grants in Aid - Federal	322,644
Restricted Grants in Aid - State	6,497
Donated Management Fee	<u>1,460</u>
Total Non-Operating Revenues (Expenses)	<u>308,823</u>

Change in Net Assets	63,127
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Net Assets, Beginning of Year	<u>210,780</u>
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Net Assets, End of Year	<u><u>\$273,907</u></u>
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See accompanying notes to the basic financial statements.

Horizon Science Academy Cleveland Middle School

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash Received from State of Ohio	\$1,006,303
Cash Received from Other Operating Revenues	15,893
Cash Payments to Suppliers for Goods and Services	(481,009)
Cash Payments to Employees for Services and Benefits	(650,155)
Other Cash Payments	(44,726)
Net Cash Used for Operating Activities	<u>(153,694)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Federal Grants Received	371,193
State Grants Received	6,497
Net Cash Provided by Noncapital Financing Activities	<u>377,690</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Principal Paid on Capital Lease Payable	(2,626)
Interest Paid on Capital Lease Payable	(78)
Payment for Capital Acquisitions	(19,724)
Net Cash Used for Capital and Related Financing Activities	<u>(22,428)</u>

Net Increase in Cash and Cash Equivalents	201,568
Cash and Cash Equivalents at Beginning of Year	73,469
Cash and Cash Equivalents at End of Year	<u>\$275,037</u>

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

Operating Loss	(\$245,696)
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**ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET
CASH USED FOR OPERATING ACTIVITIES:**

Depreciation	17,899
Donated Management Fees	1,460

Changes in Assets and Liabilities:

Decrease in Intergovernmental Receivable	26,497
Decrease in Prepaid Expenses	24,867
Decrease in Accounts Payable	(8,370)
Decrease in Accrued Wages and Benefits Payable	(195)
Increase in Payroll Liabilities	29,844
Total Adjustments	<u>92,002</u>

Net Cash Used for Operating Activities	<u><u>(\$153,694)</u></u>
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See accompanying notes to the basic financial statements.

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Horizon Science Academy Cleveland Middle School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

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

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

The Academy was approved for operation under contract with the Lucas County Educational Service Center (the Sponsor) for a period of five years commencing November 19, 2004. On October 29, 2009, the Academy extended this contract through June 30, 2012.

The Academy operates under the direction of a self-appointed five-member Board of Directors. 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 Directors controls the Academy's facility, which is currently staffed by 20 full and part time personnel who provide services to up to 154 students during the year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

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

B. Measurement Focus and Basis of Accounting

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

Horizon Science Academy Cleveland Middle School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting (Continued)

The Statement of Revenues, Expenses, and Change in Net Assets present increases (e.g., revenues) and decreases (e.g., expenses) in total net assets. The Statement of Cash Flows provides information about how the Academy 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 Academy receives value without directly giving equal value in return, such as grants, entitlements and donations are recognized in the period in which all eligibility requirements have been satisfied. Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. Expenses are recognized at the time they are incurred.

C. Budgetary Process

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

D. Cash

To improve cash management, all cash received by the Academy is pooled in a central bank account. The Academy did not have any investments during fiscal year 2011.

E. Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold for inventory assets at \$1,000. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. The threshold for capitalized improvements (including labor, equipment and materials) is \$10,000. The Academy does not capitalize interest.

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

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

Horizon Science Academy Cleveland Middle School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program, Special Education Program, and the Comprehensive Continuous Improvement Plan (CCIP). Revenues received from the State Foundation Program, Special Education Program and other State programs are recognized as operating revenues whereas revenues from the Federal CCIP Program and other State Grants are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

G. Operating Revenues and Expenses

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

H. Compensated Absences

Academy policy indicates that full-time employees are entitled up to eight days of sick or personal leave per year. Full time employees who do not use all of their sick or personal days within the year will receive \$125 for each unused day. All leave earned by employees must be used in the current period and balances are not carried forward, and therefore, are not recorded as a liability.

I. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors, or contracts. The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. At fiscal year end June 30, 2011, the Academy had no restricted net assets.

J. Estimates

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

Horizon Science Academy Cleveland Middle School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

3. DEPOSITS

As of June 30, 2011, the Academy's bank balance of \$283,626 was covered by FDIC.

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

4. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

Table 3

Capital Assets				
	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
Equipment & Furniture	\$180,770	\$19,724	\$(62,405)	\$138,089
School Vehicle	16,005	0	0	16,005
Total Fixed Assets	196,775	19,724	(62,405)	154,094
Less: Accumulated Depreciation	(129,605)	(17,899)	40,705	(106,799)
Total Fixed Assets	\$67,170	\$1,825	\$(21,700)	\$47,295

5. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Academy contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability, and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Horizon Science Academy Cleveland Middle School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

5. DEFINED BENEFIT PENSION PLANS (Continued)

A. School Employees Retirement System (Continued)

Plan members are required to contribute 10% of their annual covered salary and the Horizon Science Academy Cleveland Middle School is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ending June 30, 2011, the allocation to pension and death benefits is 11.81%. The remaining 2.19% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The Academy's contributions to SERS for the years ended June 30, 2011, 2010, and 2009 were \$6,864, \$13,135 and \$8,058 respectively; and 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

B. State Teachers Retirement System

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

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

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

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

Horizon Science Academy Cleveland Middle School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

5. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

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

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

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

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

A DB or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

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

Horizon Science Academy Cleveland Middle School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

5. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

For the fiscal years ended June 30, 2011, 2010, and 2009, plan members were required to contribute 10 percent of their annual covered salaries. For these fiscal years, the Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS Ohio, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010, and 2009 were \$64,918, \$58,155 and \$89,314 respectively; 100 percent has been contributed for fiscal years 2011, 2010, and 2009.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2011, three members of the Board of Directors have elected Social Security. The Board's liability is 6.2 percent of wages.

6. POSTEMPLOYMENT BENEFITS

A. State Teachers Retirement System

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

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

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

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

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14 percent employer contribution rate, 1 percent of covered payroll was allocated to post-employment health care for the years ended June 30, 2011, 2010 and 2009. The 14 percent employer contribution rate is the maximum rate established under Ohio law. For the Academy, these amounts equaled \$4,994, \$4,473 and \$5,616, for fiscal years 2011, 2010, and 2009, respectively.

Horizon Science Academy Cleveland Middle School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

6. POSTEMPLOYMENT BENEFITS (Continued)

B. School Employees Retirement System

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

Medicare Part B Plan

The Medicare Part B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2011 was \$96.40 for most participants, but could be as high as \$369.10 per month depending on their income. SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2011, the actuarially required allocation is .76%. The Academy's contributions for the years ended June 30, 2011, 2010 and 2009 were \$373, \$1,098 and \$1,062, respectively, which equaled the required contributions each year.

Health Care Plan

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

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

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code § 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the year ended June 30, 2011, the health care allocation is 1.43%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. State law provides that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. For the Academy contributions assigned to health care for the years ended June 30, 2011, 2010 and 2009 were \$701, \$6,011 and \$926, respectively.

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

Horizon Science Academy Cleveland Middle School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

6. POSTEMPLOYMENT BENEFITS (Continued)

B. School Employees Retirement System (Continued)

The financial reports of SERS' Health Care and Medicare B plans are included in its Comprehensive Annual Financial Report. The report can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

7. RISK MANAGEMENT

A. Property and Liability

The Academy is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2011, the Academy contracted with Great American Insurance Company for property and general liability insurance with a \$1,000,000 single occurrence limit and \$3,000,000 annual aggregate and no deductible. There has been no reduction in coverage from the prior year. There have been no settlements exceeding coverage in any of the last three fiscal years.

B. Workers Compensation

The Academy pays the State Workers Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

8. EMPLOYEE MEDICAL AND DENTAL BENEFITS

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

9. PURCHASED SERVICES

Purchased service expenses during fiscal year 2011 were as follows:

Type	Amount
Professional Services	\$228,623
Rent and Property Services	186,951
Admin Travel	1,828
Advertising and Communications	10,323
Pupil Transportation	3,041
Total	\$430,766

10. OPERATING LEASES

The Academy entered into a lease agreement with Horizon Science Academy of Cleveland on January 1, 2006 for five years for the modular building located at 6100 South Marginal Road, Cleveland, OH 44103. The landlord transferred its property to Breeze, Inc. The monthly payment is \$11,500.

Horizon Science Academy Cleveland Middle School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

10. OPERATING LEASES (Continued)

The Academy also entered into a lease agreement with Breeze, Inc, for the Elementary School building on September 1, 2007 for ten years. The monthly lease payment is \$12,500. The annual rent shall increase by 4% over the rent for the preceding year. Payments totaled \$278,018 for fiscal year 2011.

In 2011, the Academy entered into sublease agreement for Elementary School building with Horizon Science Academy Cleveland Elementary School for the same rates as above. For Fiscal Year 2011, Academy received 100% of incurred lease payments in the amount of \$167,648.

11. CAPITALIZED LEASE – LESSEE DISCLOSURE

The Academy entered into a capital lease agreement for a copy machine/printer in the fiscal year ending June 30, 2006. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risk of ownership to the lessee. The capital lease was recorded at the present value of the future minimum lease payments as of the inception date. Principal payments made during fiscal year 2011 totaled \$2,626.

The following is a schedule of the future minimum lease payments required under the capital lease as of June 30, 2011

	<u>Total Payment</u>	<u>Interest</u>	<u>Principal</u>
2012	\$116	\$0	\$116

12. CONTINGENCIES

A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the Academy. In fiscal year 2011, the Academy received grants from State and Federal agencies totaling \$329,141.

B. Ohio Department of Education Enrollment Review

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the Academy. These reviews are conducted to ensure the Community School is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated.

Horizon Science Academy Cleveland Middle School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

13. NOTE RECEIVABLE

The Academy entered into a promissory note with Horizon Science Academy of Cleveland on April 11, 2008, in the amount of \$50,000, at an interest rate of 3 percent. The note was used to pay for general operations of the Horizon Science Academy of Cleveland. The outstanding balance of this note is as follows:

	Balance as of June 30, 2010	Payments Received	Balance as of June 30, 2011
Horizon Science Academy of Cleveland	\$543	\$0	\$543

14. SPONSORSHIP AGREEMENT

On November 19, 2004, Lucas County Educational Service Center (now the Educational Service Center of Lake Erie West) assumed responsibility for sponsorship of the Academy. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. On May 2, 2007, the original contract was extended until June 30, 2012. According to the contract, the Academy pays one percent of its foundation revenues to the Sponsor. This rate was increased to 1.5 percent as of July 1, 2010. In fiscal year 2011, the Academy's compensation to the Sponsor was \$14,470.

15. MANAGEMENT COMPANY AGREEMENT

In January 2005, the Academy contracted with Concepts Schools, Inc. to serve as the Academy's management company. The contract is renewed automatically every year in one year terms unless the Academy or the management company decides otherwise. According to the contract, the Academy transfers 12 percent of the funds received from the State. In fiscal year 2011, the Academy paid fees amount of \$105,883 to Concept Schools for management services and \$20,435 was recorded under accounts payable and \$1,460 were forgiven by Concept Schools, and are reflected in the statement of revenues, expenses and change in net assets as donated management fees.

16. RELATED PARTIES

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

17. SUBSEQUENT EVENTS

The Academy issued a \$100,000 promissory note to Horizon Science Academy of Lorain in August 2011. This loan was issued to help Horizon Science Academy of Lorain cover various operating costs.

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

To the Board of Directors:

We have audited the financial statements of the Horizon Science Academy Cleveland Middle School, Cuyahoga County, (the Academy) as of and for the year ended June 30, 2011, and have issued our report thereon dated June 22, 2012. 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 the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Academy's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Academy's financial statements will not be prevented, or detected and timely corrected.

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

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 we must report under *Government Auditing Standards*.

We did note certain matters not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated June 22, 2012.

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

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

Dave Yost
Auditor of State

June 22, 2012

HORIZON SCIENCE ACADEMY CLEVELAND MIDDLE SCHOOL
CUYAHOGA COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2011

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-001	The Academy did not file its annual financial report by the required deadline.	Yes	Corrected

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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURE

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

To the Board of Directors:

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

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

1. We noted the Academy amended its anti-harassment policy at its meeting on June 16, 2012 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

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

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

June 22, 2012

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Dave Yost • Auditor of State

HORIZON SCIENCE ACADEMY CLEVELAND MIDDLE SCHOOL

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 05, 2012**