



Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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HORIZON SCIENCE ACADEMY CLEVELAND ELEMENTARY SCHOOL
CUYAHOGA COUNTY

REGULAR AUDIT

For the Year Ended June 30, 2012
Fiscal Year Audited Under GAGAS: 2012



Dave Yost • Auditor of State

Board of Trustees
Horizon Science Academy of Cleveland Elementary School
6150 South Marginal Road
Cleveland, Ohio 44103

We have reviewed the *Independent Auditor's Report* of the Horizon Science Academy of Cleveland Elementary School, Cuyahoga County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2011 through June 30, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Horizon Science Academy of Cleveland Elementary School is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

March 26, 2013

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HORIZON SCIENCE ACADEMY CLEVELAND ELEMENTARY SCHOOL
YEAR ENDED JUNE 30, 2012

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Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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Independent Auditor's Report

Members of the Board
Horizon Science Academy Cleveland Elementary School
Cuyahoga County
6150 South Marginal Road
Cleveland, Ohio 44103

We have audited the accompanying financial statements of the business-type activities of Horizon Science Academy Cleveland Elementary School, Cuyahoga County, Ohio, (the School), as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Horizon Science Academy Cleveland Elementary School, Cuyahoga County, Ohio, as of June 30, 2012, and the change in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2013, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we do 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. The 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.

Balestra, Harr & Scherer, CPAs
Balestra, Harr & Scherer, CPAs, Inc.
January 24, 2013

Horizon Science Academy Cleveland Elementary School

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Unaudited)*

The discussion and analysis of Horizon Science Academy Cleveland Elementary School's (the School) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2012. Readers should also review the financial statements and notes to enhance their understanding of the School's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2012 are as follows:

- Total assets were \$514,198.
- Total liabilities were \$69,193.
- Total net assets decreased \$14,211.

Using this Financial Report

This report consists of three parts: the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and change in net assets, and a statement of cash flows.

Reporting the School as a Whole

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

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

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

Horizon Science Academy Cleveland Elementary School
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Unaudited)

Table 1 provides a comparison of net assets as of June 30, 2012 with net assets as of June 30, 2011.

Table 1

Net Assets		
	2012	2011
<u>Assets</u>		
Current and Other Assets	\$ 349,702	\$ 332,281
Capital Assets, Net	164,496	200,334
Total Assets	514,198	532,615
<u>Liabilities</u>		
Current Liabilities	69,193	73,399
Total Liabilities	69,193	73,399
<u>Net Assets</u>		
Invested in Capital Assets	164,496	200,334
Unrestricted	280,509	258,882
Total Net Assets	\$ 445,005	\$ 459,216

Total assets decreased \$18,419. Capital assets decreased by \$35,838, net of accumulated depreciation. Intergovernmental receivables increased by \$74,225. Total liabilities decreased by \$4,206.

The unrestricted net assets represent the accumulated results of the School's operations to date. These assets can be used to finance day to day operations without constraints, such as legislative or legal requirements. The results of the current year operations for the School as a whole are reported in the Statement of Revenues, Expenses and Change in Net Assets, which shows the change in net assets.

Table 2 shows the changes in net assets for the fiscal years 2011 and 2012.

Horizon Science Academy Cleveland Elementary School
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Unaudited)

Table 2
Revenues, Expenses and Change in Net Assets

	<u>June 30,</u> <u>2012</u>	<u>June 30,</u> <u>2011</u>
OPERATING REVENUES:		
Foundation payments	\$1,217,222	\$962,495
Food services	2,388	5,171
Classroom fees	6,059	2,392
Extracurricular activities	14,588	2,031
Other revenue	3,687	10,947
	<u>1,243,944</u>	<u>983,036</u>
OPERATING EXPENSES:		
Salaries	588,481	676,763
Fringe benefits	150,847	173,762
Purchased services	675,374	564,105
Materials and supplies	68,330	74,688
Depreciation	45,156	39,708
Miscellaneous	90,934	52,731
	<u>1,619,122</u>	<u>1,581,757</u>
Operating loss	<u>(375,178)</u>	<u>(598,721)</u>
NON-OPERATING REVENUES (EXPENSES):		
Restricted grants in aid - federal	359,362	547,495
Restricted grants in aid - state	1,607	6,435
Other revenue	-	100
Interest expense	(2)	-
	<u>360,967</u>	<u>554,030</u>
Total non-operating revenues (expenses)	<u>360,967</u>	<u>554,030</u>
Change in net assets	(14,211)	(44,691)
Net assets, beginning of year	<u>459,216</u>	<u>503,907</u>
Net assets, end of year	<u>\$445,005</u>	<u>\$459,216</u>

Foundation support revenue increased \$254,727 primarily as a result of an increase in student enrollment. Federal grant revenue decreased primarily due to a loss of ARRA funds and charter schools grant funds. Purchased services increased \$111,269 also as a result of increased need for purchased services resulting from increased in student enrollment.

Foundation support is the primary support of the School, comprising 98% of operating revenue and 76% of total revenues. The School also received a significant portion of federal grants, which represent 22% of total revenue. Salaries and benefits comprise the largest portion of operating expenses, representing 46% of total operating expenses. Purchased services also represent a large portion of operating expenses, or 42%. Net assets decreased \$14,211 resulting from revenues in excess of expenses.

Horizon Science Academy Cleveland Elementary School
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Unaudited)

Capital Assets

At the end of fiscal year 2012, the School had \$273,086 invested in furniture and equipment and school vehicles, (\$164,496 net of accumulated depreciation). Table 3 shows fiscal year 2012 and fiscal year 2011:

Table 3

Capital Assets				
	Balance			Ending
	July 1, 2011	Additions	Deletions	June 30, 2012
Equipment & Furniture- Office	\$ 259,777	\$ 9,318	\$ (1,409)	\$ 267,686
School Vehicle	5,400	-	-	5,400
Total Fixed Assets	265,177	9,318	(1,409)	273,086
Less: Accumulated Depreciation	(64,843)	(45,156)	1,409	(108,590)
Total Fixed Assets	\$ 200,334	\$ (35,838)	\$ -	\$ 164,496

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

Contacting the School's Financial Management

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the School's finances. Questions concerning any of the information in this report or requests for additional information should be directed to Ramazan Celep, Treasurer, Horizon Science Academy Cleveland Elementary School, 6150 S. Marginal Rd, Cleveland, OH 44103.

Horizon Science Academy Cleveland Elementary School

Statement of Net Assets

As of June 30, 2012

ASSETS:

Current Assets:

Cash and cash equivalents	\$206,551
Notes receivable	40,000
Prepays	28,570
Accounts receivable	356
Intergovernmental receivable	74,225
Total current assets	<u>349,702</u>

Noncurrent Assets:

Depreciable capital assets (Net of Accumulated Depreciation)	<u>164,496</u>
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Total assets 514,198

LIABILITIES:

Current Liabilities:

Accrued wages and benefits payable	53,589
Payroll liabilities	11,050
Intergovernmental payable	4,554
Total current liabilities	<u>69,193</u>

Total liabilities 69,193

NET ASSETS:

Invested in capital assets	164,496
Unrestricted (deficit)	<u>280,509</u>

Total net assets \$445,005

See accompanying notes to the basic financial statements.

Horizon Science Academy Cleveland Elementary School

Statement of Revenues, Expenses and Change in Net Assets

For the Fiscal Year Ended June 30, 2012

OPERATING REVENUES:

Foundation payments	\$1,217,222
Food services	2,388
Classroom fees	6,059
Extracurricular activities	14,588
Other revenue	<u>3,687</u>

Total operating revenues 1,243,944

OPERATING EXPENSES:

Salaries	588,481
Fringe benefits	150,847
Purchased services	675,374
Materials and supplies	68,330
Depreciation	45,156
Miscellaneous	<u>90,934</u>

Total operating expenses 1,619,122

Operating loss (375,178)

NON-OPERATING REVENUES (EXPENSES):

Interest expense	(2)
Restricted grants in aid - federal	359,362
Restricted grants in aid - state	<u>1,607</u>

Total non-operating revenues (expenses) 360,967

Change in net assets (14,211)

Net assets, beginning of year 459,216

Net assets, end of year \$445,005

See accompanying notes to the basic financial statements.

Horizon Science Academy Cleveland Elementary School

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2012

DECREASE IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from State of Ohio	\$1,214,594
Cash received from other operating revenues	26,366
Cash payments to suppliers for goods and services	(751,964)
Cash payments to employees for services and benefits	(761,216)
Other cash payments	(90,934)
	<hr/>
Net cash used for operating activities	(363,154)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Federal grants received	285,137
State grants received	1,607
Interest paid	(2)
	<hr/>
Net cash provided by noncapital financing activities	286,742

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Notes receivable issued	(130,000)
Payments received on Notes receivable	107,509
Payment for capital acquisitions	(9,318)
	<hr/>
Net cash used for capital and related financing activities	(31,809)

Net decrease in cash and cash equivalents	(108,221)
Cash and cash equivalents at beginning of year	314,772
Cash and cash equivalents at end of year	<hr/> <hr/>

RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES

Operating loss	(\$375,178)
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ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES:

Depreciation	45,156
Changes in Assets and Liabilities:	
Increase in prepaids	(28,570)
Increase in accounts receivable	(356)
Decrease in accrued wages and benefits payable	(4,368)
Decrease in accounts payable	(8,260)
Decrease in intergovernmental payable	(2,628)
Increase in payroll liabilities	11,050
Total adjustments	<hr/>

Net cash used for operating activities	<hr/> <hr/>
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See accompanying notes to the basic financial statements.

Horizon Science Academy Cleveland Elementary School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Horizon Science Academy Cleveland Elementary School (the School), is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in grades K through 5 in Cleveland. The School, which is part of the State's education program, is independent of any School and is nonsectarian in its programs, admission policies, employment practices, and all other operations.

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

The School was approved for operation under contract with the Buckeye Community Hope Foundation (the Sponsor) for a period of five years commencing March 24, 2008.

The School operates under the direction of a self-appointed five-member Board of Trustees. The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board of Trustees controls the School's facility, which is currently staffed by 21 full and part time personnel who provide services to up to 168 students during the year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

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

B. Measurement Focus and Basis of Accounting

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

Horizon Science Academy Cleveland Elementary School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting (Continued)

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The full accrual basis of accounting is used for reporting purposes. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Revenues resulting from non-exchange transactions, in which the School receives value without directly giving equal value in return, such as grants, entitlements and donations are recognized in the period in which all eligibility requirements have been satisfied. Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. Expenses are recognized at the time they are incurred.

C. Budgetary Process

The contract between the School and its Sponsor prescribes an annual budget requirement in addition to preparing a 5-year forecast, which is to be updated on an annual basis. Chapter 5705.391(A) of the Ohio Revised Code also requires the School to prepare a 5-year forecast, update it annually, and submit it to the Superintendent of Public Instruction at the Ohio Department of Education.

D. Cash

To improve cash management, all cash received by the School is pooled in a central bank account. The School did not have any investments during fiscal year 2012.

E. Capital Assets and Depreciation

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

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

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

F. Intergovernmental Revenues

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

Horizon Science Academy Cleveland Elementary School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Intergovernmental Revenues (Continued)

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

G. Operating Revenues and Expenses

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

H. Compensated Absences

School policy indicates that full-time employees are entitled up to eight days of sick or personal leave per year. Full time employees who do not use all of their sick or personal days within the year will receive \$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 School or through external restrictions imposed by creditors, grantors, or contracts. The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. At fiscal year end June 30, 2012, the School had no restricted net assets.

J. Estimates

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

3. DEPOSITS

As of June 30, 2012, the School's bank balance of \$212,121 was covered by FDIC.

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

Horizon Science Academy Cleveland Elementary School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

4. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

Capital Assets				
	Balance			Ending
	July 1, 2011	Additions	Deletions	June 30, 2012
Equipment & Furniture- Office	259,777	9,318	(1,409)	267,686
School Vehicles	5,400	-	-	5,400
Total Fixed Assets	265,177	9,318	(1,409)	273,086
Less: Accumulated Depreciation	(64,843)	(45,156)	1,409	(108,590)
Total Fixed Assets	200,334	(35,838)	-	164,496

5. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School 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.

Plan members are required to contribute 10% of their annual covered salary and Horizon Science Academy Cleveland Elementary 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, 2012, the allocation to pension and death benefits is 12.70%. The remaining 1.30% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The School District's contributions to SERS for the years ended June 30, 2012, 2011, and 2010 were \$16,236, \$17,500 and \$23,682 respectively; and 100 percent has been contributed for fiscal year 2012, 2011 and 2010.

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.

Horizon Science Academy Cleveland Elementary School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

5. DEFINED BENEFIT PENSION PLANS (Continued)

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.

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.

Horizon Science Academy Cleveland Elementary School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

5. DEFINED BENEFIT PENSION PLANS (Continued)

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.

For the fiscal years ended June 30, 2012, 2011, and 2010, plan members were required to contribute 10 percent of their annual covered salaries. For these fiscal years, the School 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 School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011, and 2010 were \$76,434, \$91,526 and \$52,158, respectively; 100% has been contributed for fiscal years 2012, 2011 and 2010.

STRS Ohio issues a stand-alone financial report. Copies of STRS Ohio's Comprehensive Annual Financial Report can be requested by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2012, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages.

6. POSTEMPLOYMENT BENEFITS

A. 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, 2012, 2011 and 2010. The 14 percent employer contribution rate is the maximum rate established under Ohio law. For the School, these amounts equaled \$5,460, \$7,040 and \$4,012, for fiscal years 2012, 2011, and 2010, respectively; 100% has been contributed for fiscal years 2012, 2011 and 2010.

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.

Horizon Science Academy Cleveland Elementary School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

6. POSTEMPLOYMENT BENEFITS (Continued)

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 2012 was \$99.90 for most participants, but could be as high as \$319.70 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 2012, the actuarially required allocation is .75%. The School's contributions for the years ended June 30, 2012, 2011 and 2010 were \$870, \$937 and \$1,980, 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, 2012, the health care allocation is 0.55%. 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 2012, 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 School's contributions assigned to health care for the years ended June 30, 2012, 2011, and 2010 were \$4,824, \$5,200 and \$10,838, respectively; 100% has been contributed for fiscal years 2012, 2011 and 2010.

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.

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.

Horizon Science Academy Cleveland Elementary School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

7. RISK MANAGEMENT

A. Property and Liability

The School is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2012, the School 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.

B. Workers Compensation

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

8. EMPLOYEE MEDICAL AND DENTAL BENEFITS

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

9. PURCHASED SERVICES

Purchased service expenses during fiscal year 2012 were as follows:

<u>Type</u>	<u>Amount</u>
Professional Services	\$449,370
Rent and Property Services	\$208,932
Admin Travel	\$3,181
Advertising and Communications	\$9,495
Pupil Transportation	\$4,396
Total	<u>\$675,374</u>

10. NOTES RECEIVABLES

Notes receivables activity during fiscal year 2012 was as follows:

	Balance at			Balance at
	7/1/2011	Additions	Deletions	6/30/2012
Noble Academy Cleveland	\$ -	\$ 80,000	\$ 40,000	\$ 40,000
HSA Youngstown	\$ -	\$ 50,000	\$ 50,000	\$ -
HSA Cleveland	\$ 17,509	\$ -	\$ 17,509	\$ -
Total	<u>\$ 17,509</u>	<u>\$ 130,000</u>	<u>\$ 107,509</u>	<u>\$ 40,000</u>

The School entered into a 24 month promissory note with Horizon Science Academy – Cleveland High School in November 2009 at an interest rate of 6.00 percent in the amount of \$100,000. As of June 30, 2011, the School has an outstanding balance of \$17,509 due from HSA Cleveland High School. This balance was paid off by HSA Cleveland High School during November 2011. The School lent \$80,000 to Noble Academy Cleveland with no interest due and received a \$40,000 payment during fiscal year 2012. Noble Academy Cleveland will pay off the rest of the loan in the fiscal year 2013. The Academy also lent \$50,000 to Horizon Science Academy Youngstown with no interest due and this whole balance was repaid during fiscal year 2012.

Horizon Science Academy Cleveland Elementary School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

11. OPERATING LEASES

The School entered into a one year sublease agreement for an operating lease in fiscal year 2009 for school facilities on 6150 S. Marginal Rd, Cleveland, OH 44103 with Horizon Science Academy Cleveland Middle School/Breeze Inc. for period of September 1, 2008 thru August 30, 2009. The School is renewing the contracted period each year per the option stated in initial lease agreement. According to the current agreement, the monthly rent for the facilities is \$14,623. Payments totaled \$175,479 during fiscal year 2012.

12. CONTINGENCIES

A. Auditor of State Review

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported to the Ohio Department of Education at a later date.

The School received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the School. This also encompasses the Auditor of State's ongoing review of student attendance data. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the School. In fiscal year 2012, the School received grants from State and Federal agencies total of \$360,969.

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. According to the FTE review made for fiscal year 2012, the School was overpaid \$4,551.

13. SPONSORSHIP AGREEMENT

On March 24, 2008, Buckeye Community Hope Foundation assumed responsibility for sponsorship of the School. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. In 2010, the original contract was extended until June 30, 2015. According to the contract, the School pays three percent of its foundation revenues to the Sponsor. In fiscal year 2012, the School's compensation to the Sponsor was \$33,687.

14. MANAGEMENT COMPANY AGREEMENT

In March 2008, the School contracted with Concepts Schools, Inc. to serve as the School's management company. The contract is renewed automatically every year in one year terms unless the School or the management company decides otherwise. According to the contract, the School transfers 12 percent of the funds received from the State. In fiscal year 2012, the School paid fees amount of \$161,960 to Concept Schools for management services and \$137 was recorded under accounts receivable as a credit.

15. RELATED PARTIES

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

Horizon Science Academy Cleveland Elementary School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

15. RELATED PARTIES (Continued)

The Academy issued several short term notes to other Horizon Science Academies Schools that are managed by the same management company, Concept Schools.



Balestra, Harr & Scherer, CPAs, Inc.

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

Members of the Board
Horizon Science Academy Cleveland Elementary School
Cuyahoga County
6150 South Marginal Road
Cleveland, Ohio 44103

We have audited the financial statements of the business-type activities of Horizon Science Academy Cleveland Elementary School, Cuyahoga County, Ohio, (the School), as of and for the year ended June 30, 2012, and have issued our report thereon dated January 24, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Balestra, Harr & Scherer, CPAs

Balestra, Harr & Scherer, CPAs, Inc.
January 24, 2013



Dave Yost • Auditor of State

HORIZON SCIENCE ACADEMY CLEVELAND ELEMENTARY 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
APRIL 9, 2013**