



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

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2009**



**Mary Taylor, CPA**  
Auditor of State



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

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Trustees:

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 2010, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

**Mary Taylor, CPA**  
Auditor of State

June 11, 2010

**Horizon Science Academy Denison Middle School**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2009  
(Unaudited)*

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

**Financial Highlights**

Key financial highlights for fiscal year 2009 are as follows:

- Total assets were \$279,793.
- Total liabilities were \$244,610.
- Total net assets increased \$48,724.

**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 Denison Middle School**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2009  
(Unaudited)*

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

Table 1

	Net Assets	
	2009	2008
<u>Assets</u>		
Current and Other Assets	\$13,753	\$36,553
Capital Assets, Net	266,040	217,791
Total Assets	279,793	254,344
<u>Liabilities</u>		
Current Liabilities	223,027	273,667
Non-Current Liabilities	21,583	0
Total Liabilities	244,610	273,667
<u>Net Assets</u>		
Invested in Capital Assets	266,040	217,791
Unrestricted	(236,638)	(237,113)
Total Net Assets	\$29,402	\$(19,322)

Total assets increased \$25,449. This increase is due mainly to an increase in capital assets, net of accumulated depreciation of \$48,249 due to furniture and equipment additions. Intergovernmental receivables decreased by \$19,357. Intergovernmental receivables decreased due to the more timely receipt of Federal funds during 2009. Total liabilities decreased \$29,057. This decrease is due mainly to payments in notes payable and accounts.

**Horizon Science Academy Denison Middle School**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2009*  
*(Unaudited)*

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

Table 2

Revenues, Expenses and Change in Net Assets	2009	2008
<u>Operating Revenue/Expense</u>		
Revenue		
Foundation Payments	\$1,493,252	\$1,863,020
Food Services	2,650	6,224
Classroom Fees	22,326	26,342
Extracurricular Activities	5,692	9,360
Other Local Revenue	15,067	19,201
Total Operating Revenues	1,538,987	1,924,147
Expense		
Salaries	879,441	1,001,368
Fringe Benefits	221,935	198,836
Purchased Services	797,703	941,433
Materials and Supplies	81,508	180,550
Depreciation Expense	101,442	73,002
Miscellaneous Expenses	43,362	53,769
Total Operating Expenses	2,125,391	2,448,958
Net Operating Loss	(586,404)	(524,811)
<u>Non-Operating Revenues/Expenses</u>		
Donated Management Fee	69,512	123,608
Restricted Grant-In-Aid- Federal	557,345	546,473
Restricted Grant In-Aid- State	11,404	7,995
Interest Expense	(3,133)	(7,997)
Total Non-Operating Revenues/Expenses	635,128	670,079
Change in Net Assets	48,724	145,268
Net Assets at Beginning of Year	(19,322)	(164,590)
Net Assets at End of Year	\$29,402	(\$19,322)

Foundation support revenue decreased \$369,768, primarily as a result of a decrease in students. Federal grant revenue increased \$10,872 due to E-rate and School Improvement grants. The School also received in-kind support (donated management fee) in the amount of \$69,512 in 2009. Total operating expenses decreased \$323,567 also as a result of decreased need for services resulting from enrollment changes.

**Horizon Science Academy Denison Middle School**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2009  
(Unaudited)*

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Foundation support is the primary support of the School, comprising 97% of operating revenue and 69% of total revenues. The School also received a significant portion of federal grants and in-kind contributions, which represent 26% and 4% of total revenue, respectively. Salaries and benefits comprise the largest portion of operating expenses, representing 52 % of total operating expenses. Purchased services also represent a large portion of operating expenses, or 38%. Net assets increased \$48,724 resulting from revenues in excess of expenses.

**Capital Assets**

At the end of fiscal year 2009 the School had \$266,040, invested in furniture and equipment, and leasehold improvements (net of \$296,202 in accumulated depreciation). Table 3 shows fiscal year 2009 and fiscal year 2008:

Table 3

Capital Assets (Net of Depreciation)		
	2009	2008
Furniture and Equipment	\$233,680	\$151,163
Leasehold Improvements	32,360	66,628
Totals	<u>\$266,040</u>	<u>\$217,791</u>

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

**Debt**

The School entered into a promissory note with the Horizon Educational Services and National City Bank. As of June 30, 2009 and 2008, the School has outstanding note balances as follows.

Table 4

Outstanding Note Balances		
	2009	2008
HSA Cleveland	\$55,305	\$76,457
National City Bank	0	5,162
Total	<u>\$55,305</u>	<u>\$81,619</u>

For more information on the School's debt see Note 10 to the basic financial statements.

**Contacting the School's Financial Management**

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the School's finances. Questions concerning any of the information in this report or requests for additional information should be directed to Aman Gurdov, Treasurer, Horizon Science Academy of Denison Middle School, Inc., 1700 Denison Ave, Cleveland, Ohio 44109.

**Horizon Science Academy Denison Middle School**

*Statement of Net Assets*

*June 30, 2009*

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**ASSETS:**

**Current Assets:**

Cash and cash equivalents	\$10,726
Intergovernmental receivable	<u>3,027</u>
Total current assets	<u>13,753</u>

**Noncurrent Assets:**

Depreciable capital assets	<u>266,040</u>
Total assets	<u>279,793</u>

**LIABILITIES:**

**Current Liabilities:**

Accounts payable	136,659
Accrued wages and benefits payable	71,763
Payroll liabilities	(19,980)
Note Payable – current portion	33,721
Accrued interest payable	<u>863</u>
Total current liabilities	<u>223,026</u>

**Noncurrent Liabilities:**

Note payable – noncurrent portion	<u>21,584</u>
Total noncurrent liabilities	<u>21,584</u>
Total Liabilities	<u>244,610</u>

**NET ASSETS:**

Invested in capital assets	266,040
Unrestricted (deficit)	<u>(236,638)</u>
Total net assets	<u><u>\$29,402</u></u>

See accompanying notes to the basic financial statements.

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

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**OPERATING REVENUES:**

Foundation payments	\$1,493,252
Food services	2,650
Classroom fees	22,326
Extracurricular activities	5,692
Other revenue	<u>15,067</u>

Total operating revenues	<u>1,538,987</u>
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**OPERATING EXPENSES:**

Salaries	879,441
Fringe benefits	221,935
Purchased services	797,703
Materials and supplies	81,508
Depreciation	101,442
Miscellaneous	<u>43,362</u>

Total operating expenses	<u>2,125,391</u>
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Operating loss	<u>(586,404)</u>
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**NON-OPERATING REVENUES (EXPENSES):**

Interest expense	(3,133)
Donated management fee	69,512
Restricted grants in aid – federal	557,345
Restricted grants in aid – state	<u>11,404</u>

Total non-operating revenues (expenses)	<u>635,128</u>
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Change in net assets	48,724
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Net assets, beginning of year	<u>(19,322)</u>
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Net assets, end of year	<u><u>\$29,402</u></u>
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See accompanying notes to the basic financial statements.

**Horizon Science Academy Denison Middle School**

*Statement of Cash Flows*

*For the Fiscal Year Ended June 30, 2009*

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**INCREASE IN CASH AND CASH EQUIVALENTS**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Cash received from State of Ohio	\$1,512,223
Cash received from other operating revenues	45,735
Cash payments to suppliers for goods and services	(752,450)
Cash payments to employees for services and benefits	(1,155,234)
Other cash payments	<u>(43,362)</u>
Net cash used for operating activities	<u>(393,088)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:**

Federal grants received	557,345
State grants received	<u>11,404</u>
Net cash provided by noncapital financing activities	<u>568,749</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:**

Principal paid on notes payable	(26,315)
Interest paid on notes payable	(3,098)
Payment for capital acquisitions	<u>(149,691)</u>
Net cash provided by capital and related financing activities	<u>(179,104)</u>

Net decrease in cash and cash equivalents	(3,443)
Cash and cash equivalents at beginning of year	<u>14,169</u>
Cash and cash equivalents at end of year	<u><u>\$10,726</u></u>

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

Operating loss	\$(586,404)
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**ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES:**

Depreciation	101,442
Donated management fees	69,512

**Changes in Assets and Liabilities:**

Increase in accounts receivable (Foundation payments)	18,971
Decrease in accounts payable	57,249
Increase in accrued wages and benefits payable	(16,761)
Decrease in intergovernmental payable	(644)
Decrease in payroll liabilities	<u>(36,456)</u>

Total adjustments	<u>193,316</u>
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Net cash used for operating activities	<u><u>(\$393,088)</u></u>
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See accompanying notes to the basic financial statements.

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**Horizon Science Academy Denison Middle School**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2009*

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**1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY**

Horizon Science Academy Denison Middle School (the School), is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in grades K through 8 in Cleveland. The School, which is part of the State's education program, is independent of any School and is nonsectarian in its programs, admission policies, employment practices, and all other operations.

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

The School was approved for operation under contract with the Lucas County Educational Service Center (the Sponsor) for a period of five years commencing November 19, 2004.

The School operates under the direction of a self-appointed five-member Board of Trustees. The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board of Trustees controls the School's facility, which is currently staffed by 32 full and part time personnel who provide services to up to 220 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 Denison Middle School**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2009*

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**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 2009.

**E. Capital Assets and Depreciation**

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

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

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

**Horizon Science Academy Denison Middle School**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2009*

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**F. Intergovernmental Revenues**

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

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

**G. Operating Revenues and Expenses**

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

**H. Compensated Absences**

School policy indicates that full-time employees are entitled up to eight days of sick or personal leave per year. Full time employees who do not use all of their sick or personal days within the year will receive \$100 for each unused day. All leave earned by employees must be used in the current period and balances are not carried forward, and therefore, are not recorded as a liability.

**I. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors, or contracts. The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. At fiscal year end June 30, 2009, the School had no restricted net assets.

**J. Estimates**

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

**Horizon Science Academy Denison Middle School**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2009*

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**3. DEPOSITS**

As of June 30, 2009, the School's bank balance of \$102,824 was covered by FDIC.

The School has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits secured.

**4. CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

<b>Capital Assets</b>				
	<b>Balance</b>			<b>Balance</b>
	<b><u>July 1, 2008</u></b>	<b><u>Additions</u></b>	<b><u>Deletions</u></b>	<b><u>June 30, 2009</u></b>
Leasehold Improvements	\$171,347	\$0	\$0	\$171,347
Furniture and Equipment	241,204	149,691	0	390,895
Total Fixed Assets	412,204	149,691	0	562,242
Less: Accumulated Depreciation	(194,760)	(101,442)	0	(296,202)
Net Fixed Assets	\$217,790	\$48,249	\$0	\$266,040

**5. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

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

**Horizon Science Academy Denison Middle School**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2009*

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**5. DEFINED BENEFIT PENSION PLANS (Continued)**

**A. School Employees Retirement System (Continued)**

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current schools rate is 14 percent of annual covered payroll. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among the four funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the system. For the fiscal year 2009, 9.09 percent of annual covered salary was the portion used to fund pension and death benefits. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The remaining 4.91 percent of the 14 percent employer contribution rate was allocated to the Health Care and Medicare B Funds. The School's contribution to SERS for the fiscal years ended June 30, 2009, 2008 and 2007 were \$24,934, \$9,078 and \$6,684, respectively; 100 percent has been contributed for fiscal years 2009, 2008 and 2007.

**B. State Teachers Retirement System**

Plan Description – The School participates in the State Teachers Retirement System of Ohio (STRS Ohio) a cost-sharing, multiple employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

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

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

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

**Horizon Science Academy Denison Middle School**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2009*

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**5. DEFINED BENEFIT PENSION PLANS (Continued)**

**B. State Teachers Retirement System (Continued)**

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

The School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2009, 2008, and 2007 were \$115,603, \$129,156 and \$98,401 respectively; 100 percent has been contributed for fiscal year 2009, 2008 and 2007.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2009, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages.

**6. POSTEMPLOYMENT BENEFITS**

**A. School Employee Retirement System**

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

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

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

The School's contributions for health care for the fiscal years ended June 30, 2009, 2008 and 2007 were \$6,917, \$8,944, and \$7,328, respectively; which equaled the required contribution for the fiscal years.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2009, this actuarially required allocation was 0.75 percent of covered payroll. The School's contributions for Medicare Part B for the fiscal years ended June 30, 2009, 2008 and 2007 were \$1,247, \$1,412, and \$1,923, respectively; which equaled the required contribution for the fiscal years.

**Horizon Science Academy Denison Middle School**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2009*

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**6. POSTEMPLOYMENT BENEFITS (Continued)**

**B. School Teachers Retirement System**

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

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions. For 2009, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School's contributions for health care for the fiscal years ended June 30, 2009, 2008, and 2007 were \$8,088, \$7,874, and \$7,569 respectively; 100 percent has been contributed for fiscal years 2009, 2008 and 2007.

**7. RISK MANAGEMENT**

**A. Property and Liability**

The School is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2009, the School contracted with Great American Insurance Company for property and general liability insurance with a \$1,000,000 single occurrence limit and \$2,000,000 annual aggregate and no deductible. There has been no reduction in coverage from the prior year. There have been no settlements exceeding coverage.

**B. Workers Compensation**

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

**8. EMPLOYEE MEDICAL AND DENTAL BENEFITS**

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

**Horizon Science Academy Denison Middle School**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2009*

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**9. PURCHASED SERVICES**

Purchased service expenses during fiscal year 2009 were as follows:

<u>Type</u>	<u>Amount</u>
Professional Services	\$395,869
Rent and Property Services	351,793
Administrative Travel	1,359
Advertising and Communications	44,337
Pupil Transportation	4,345
Total	<u>\$797,703</u>

**10. NOTES PAYABLE**

Note payable activity during fiscal year 2009 was as follows:

	<u>Balance at</u> <u>7/1/2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> <u>6/30/2009</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
HAS-Cleveland	\$76,457	\$0	\$21,152	\$55,305	\$33,721
Concept Schools	5,162	0	5,162	0	0
Total	<u>\$81,619</u>	<u>\$0</u>	<u>\$26,314</u>	<u>\$55,305</u>	<u>\$33,721</u>

The School entered into a promissory note with Horizon Science Academy – Cleveland on August 1, 2005, in the amount of \$250,000, at an interest rate of 6.5 percent. The note was used to pay for general operations of the School. The note was renegotiated on February, 2008 with modified repayment terms and forgiveness of past due interest. The amount of calculated forgiven interest from origination of the loan was \$828. As of June 30, 2009, the School has an outstanding balance of \$55,305 due to Horizon Science Academy – Cleveland.

The School entered into a promissory note with National City Bank. The loans were used to pay for school van of the School. As of June 30, 2009, the School had no outstanding balances on these loans.

Amortization of the above debt is scheduled as follows:

<u>For the Fiscal</u> <u>Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$33,721	\$2,370	\$36,091
2011	21,584	589	22,172
Total	<u>\$55,305</u>	<u>\$2,959</u>	<u>\$58,263</u>

**Horizon Science Academy Denison Middle School**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2009*

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**11. OPERATING LEASES**

The School entered into an operating lease in fiscal year 2006 for school facilities on 1700 Denison Avenue, Cleveland, Ohio 44109 with Breeze Inc. The unpaid balance of \$104,228 was recorded under accounts payable.

**12. CONTINGENCIES**

**A. Grants**

The School received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the School. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the School. In fiscal year 2009, the School received grants from State and Federal agencies total of \$568,749.

**B. Ohio Department of Education Enrollment Review**

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

**13. SPONSORSHIP AGREEMENT**

On November 19, 2004, Lucas County Educational Service Center assumed responsibility for sponsorship of the School. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. On May 2, 2007 the original contract was extended until June 30, 2012. According to the contract, the School pays one percent of its foundation revenues to the Sponsor. This rate will be increased to 1.5 percent as of July 1, 2009. In fiscal year 2009, the School's compensation to the Sponsor was \$14,926.

**14. 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 ten percent of the funds received from the State. In fiscal year 2009, the School paid fees amount of \$79,814 to Concept Schools for management services. The fees, amounting to \$69,512, were forgiven by Concept Schools, and are reflected in the statement of revenues, expenses and change in net assets as donated management fee.

**15. RELATED PARTIES**

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

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# Mary Taylor, CPA

Auditor of State

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

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

To the Board of Trustees:

We have audited the financial statements of the Horizon Science Academy Denison Middle School, Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2009, and have issued our report thereon dated June 11, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

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

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

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

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

We noted certain matters that we reported to the School's management in a separate letter dated June 11, 2010.

### **Compliance and Other Matters**

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

We did note certain noncompliance or other matters that we reported to the School's management in a separate letter dated June 11, 2010.

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

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

**Mary Taylor, CPA**  
Auditor of State

June 11, 2010

HORIZON SCIENCE ACADEMY DENISON MIDDLE SCHOOL  
CUYAHOGA COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE PERIOD ENDED JUNE 30, 2009

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2008-001	Lack of controls over disbursements.	Yes	
2008-002	Documentation of expenses.	Yes	

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# Mary Taylor, CPA

Auditor of State

## Independent Accountants' Report on Applying Agreed-Upon Procedures

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

To the Board of Education:

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

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

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

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

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

A handwritten signature in black ink that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

June 11, 2010





Mary Taylor, CPA  
Auditor of State

HORIZON SCIENCE ACADEMY DENISON MIDDLE SCHOOL  
CUYAHOGA COUNTY

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
JUNE 29, 2010