



Mary Taylor, CPA
Auditor of State

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Statement of Net Assets as of June 30, 2007.....	7
Statement of Revenues, Expenses, and Changes in Net Assets for the Year Ended June 30, 2007	8
Statement of Cash Flows for the Year Ended June 30, 2007.....	9
Notes to the Basic Financial Statements	11
Independent Accountants' Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	21
Schedule of Findings.....	23
Schedule of Prior Audit Findings.....	25

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Mary Taylor, CPA

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INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Directors:

We have audited the accompanying basic financial statements of the Horizon Science Academy of Cleveland, Cuyahoga County, Ohio, (the Academy) as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Horizon Science Academy of Cleveland, Cuyahoga County, Ohio, as of June 30, 2007, and the changes in financial position and its cash flows for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2010, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Mary Taylor, CPA
Auditor of State

November 5, 2010

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

Management's Discussion and Analysis
For the Year Ended June 30, 2007
Unaudited

The discussion and analysis of Horizon Science Academy of Cleveland (HSAC) provides an overall review of the School's financial activities for the fiscal year ended June 30, 2007. The intent of the discussion and analysis is to look at HSAC's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of HSAC's financial performance.

Financial Highlights

Key financial highlights affecting 2007 are as follows:

Total assets decreased by \$27,446, which represents a 1.6 percent decrease from 2006. This decrease is due to an increase in cash of \$166,452, a decrease in receivables of \$137,870 and an increase in accumulated depreciation. The receivables include funds loaned to other charter schools.

Total liabilities decreased \$152,201, which represents a 15.6 percent decrease from 2006. Payments on the mortgage note accounted for the majority of the decrease.

Total Operating Revenues totaled \$2,699,382.

Operating expenses decreased by \$239,508, which represents a 7.1 percent decrease from 2006. Operating expense decreases are due to a decrease in salaries and fringe benefits.

Using this Financial Report

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

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

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

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets answer the question, "How did we do financially during 2007?" These statements include all assets and liabilities using the accrual basis of accounting. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received.

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

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

Management's Discussion and Analysis
For the Year Ended June 30, 2007
Unaudited
(Continued)

School-wide financial analysis

Table 1 provides a summary of HSAC's net assets as of June 30, 2007 and 2006.

**Table 1
NET ASSETS**

<u>Assets:</u>	<u>June 30, 2007</u>	<u>June 30, 2006</u>
<u>Current Assets:</u>		
Cash and Cash equivalents	\$ 180,572	\$ 14,120
Receivables	595,726	733,596
Total Current Assets	<u>776,298</u>	<u>747,716</u>
<u>Non-Current Assets:</u>		
Capital Assets (Net of Accumulated Depreciation)	<u>914,907</u>	<u>970,935</u>
Total Assets	<u>1,691,205</u>	<u>1,718,651</u>
<u>Liabilities and Equity:</u>		
<u>Current Liabilities:</u>		
Accounts Payable	1,511	6,612
Intergovernmental Payable	25,833	15,491
Accrued Payroll	197,472	211,115
Total Current Liabilities	<u>224,816</u>	<u>233,218</u>
<u>Long Term Liabilities</u>		
Mortgage Note Payable	<u>600,038</u>	<u>743,837</u>
Total Long Term Liabilities	<u>600,038</u>	<u>743,837</u>
Total Liabilities	<u>824,854</u>	<u>977,055</u>
<u>Net Assets</u>		
Investment in Capital Assets, net of related debt	314,869	227,098
Unrestricted	<u>219,998</u>	<u>183,014</u>
Total Net Assets	<u>\$ 534,867</u>	<u>410,112</u>

Receivables decreased \$137,870 from repayments on a loan to other charter schools.

Total Liabilities of \$824,854 decreased by \$152,201, mainly from the reduction of the mortgage.

Total net assets totaled \$534,867 and increased \$124,755.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

Management's Discussion and Analysis
For the Year Ended June 30, 2007
Unaudited
(Continued)

Table 2 shows the changes in net assets for the years ended June 30, 2007 and 2006.

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

	FOR THE YEAR ENDED	
	<u>June 30, 2007</u>	<u>June 30, 2006</u>
<u>Operating Revenues:</u>		
Foundation Payments	\$ 2,541,452	\$ 2,503,109
Other Operating Revenue	157,930	219,762
Total Operating Revenue	<u>2,699,382</u>	<u>2,722,871</u>
<u>Operating Expenses:</u>		
Salaries	1,585,849	1,908,028
Fringe Benefits	340,423	220,491
Purchased Services	846,219	943,652
Materials and Supplies	154,276	132,982
Depreciation	63,744	90,061
Interest Expense	62,783	23,939
Other Operating Expenses	75,420	49,069
Total Operating Expenses	<u>3,128,714</u>	<u>3,368,222</u>
Operating Income	(429,332)	(645,351)
<u>Non-Operating Revenues</u>		
Federal and State Grants	330,731	341,840
Private Grants and Contributions	4,410	2,917
Investment Earnings	25,946	25,340
Loss from Sale of Assets	0	(1,172,974)
Rental Income	193,000	0
Total Non-Operating Revenues	<u>554,087</u>	<u>(802,877)</u>
<u>Net Assets</u>		
Net Increase in Net Assets	124,755	(1,448,228)
Total Net Assets at Beginning of Year	<u>410,112</u>	<u>1,858,340</u>
Total Net Assets at End of Year	<u>\$ 534,867</u>	<u>\$ 410,112</u>

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

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

Management's Discussion and Analysis
For the Year Ended June 30, 2007
Unaudited
(Continued)

Operating expenses for 2007 totaled \$3,128,714, which represents a decrease of \$239,508 over the prior year. The majority of the decrease is in salaries and fringe benefits (\$202,247), and purchased services expense (\$97,433).

Table 3 reflects capital assets, net of accumulated depreciation, as of June 30, 2007 and 2006.

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

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Building and Improvements	\$ 781,994	\$ 803,071
Furniture and Equipment	114,835	148,632
School Buses	18,078	19,232
Total	\$ <u>914,907</u>	\$ <u>970,935</u>

HSAC's investment in capital assets for its activities as of June 30, 2007 amount to \$914,907.

Contacting HSAC's Financial Management

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

Horizon Science Academy of Cleveland
Statement of Net Assets
For the Fiscal Year Ended June 30, 2007

ASSETS:

Current Assets:

Cash and cash equivalents	\$180,572
Receivables:	
Accounts Receivable	213,164
Notes Receivable	356,534
Interest Receivable	21,613
Intergovernmental receivable	<u>4,415</u>
Total Receivables	<u>595,726</u>
Total Current Assets	776,298

Noncurrent Assets:

Depreciable capital assets (Net of Accumulated Depreciation)	<u>914,907</u>
Total assets	<u>1,691,205</u>

LIABILITIES:

Current Liabilities:

Accounts payable	1,511
Accrued wages and benefits payable	197,472
Intergovernmental payable	<u>25,833</u>
Total current liabilities	<u>224,816</u>

Noncurrent Liabilities:

Capital Lease more than one year	<u>600,038</u>
Total noncurrent liabilities	<u>600,038</u>
Total liabilities	<u>824,854</u>

NET ASSETS:

Invested in capital assets	314,869
Unrestricted	<u>219,998</u>
Total net assets	<u><u>\$534,867</u></u>

See accompanying notes to the basic financial statements.

Horizon Science Academy of Cleveland
Statement of Revenues, Expenses and Change in Net Assets
For the Fiscal Year Ended June 30, 2007

OPERATING REVENUES:

Foundation payments	\$2,541,452
Food services	1,190
Classroom fees	61,033
Extracurricular activities	23,208
Other revenue	<u>72,499</u>

Total operating revenues 2,699,382

OPERATING EXPENSES:

Salaries	1,585,849
Fringe benefits	340,423
Purchased services	846,219
Materials and supplies	154,276
Depreciation	63,744
Interest Expense	62,783
Other Operating Expenses	<u>75,420</u>

Total operating expenses 3,128,714

Operating loss (429,332)

NON-OPERATING REVENUES:

Contributions and Private Grants	4,410
Restricted grants in aid - federal	315,363
Restricted grants in aid – state	15,368
Investment Earnings	25,946
Rental Income	<u>193,000</u>

Total non-operating revenues (expenses) 554,087

Change in net assets 124,755

Net assets, beginning of year 410,112

Net assets, end of year \$534,867

See accompanying notes to the basic financial statements.

Horizon Science Academy of Cleveland
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash Received from State of Ohio	\$2,541,452
Cash Payments to Suppliers for Goods and Services	(1,120,457)
Cash Payments to Employees for Services and Benefits	(1,939,915)
Other Received from Others	<u>157,930</u>
Net Cash Used for Operating Activities	<u>(360,990)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Non-operating Grants and Contributions Received	<u>358,954</u>
Net Cash Provided by Noncapital Financing Activities	<u>358,954</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Payments for Capital Acquisitions	(7,716)
Payment for Mortgages	<u>(143,798)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(151,514)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest Earned on Note Receivable	12,519
Payments on Notes Receivable	131,483
Rental Income	<u>176,000</u>
Net Cash Provided by Investing Activities	<u>320,002</u>
Net Increase in Cash and Cash Equivalents	166,452
Cash and cash equivalents at beginning of year	<u>14,120</u>
Cash and cash equivalents at end of year	<u><u>\$180,572</u></u>

See accompanying notes to the basic financial statements.

Horizon Science Academy of Cleveland
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2007
(Continued)

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

Operating	\$(429,332)
Adjustment to Reconcile Operating Income to Net Cash Used for Operating Activities:	
Depreciation	63,744
Changes in Assets and Liabilities	13,000
Decrease in Accounts Receivable	(5,101)
Decrease in Accounts Payable	(13,643)
Increase in Intergovernmental Payable	<u>10,342</u>
Total Adjustments	<u>68,342</u>
Net Cash Used for Operating Activities	<u><u>\$(360,990)</u></u>

See accompanying notes to the basic financial statements.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 1 - DESCRIPTION OF THE SCHOOL

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

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

The HSAC operates under a five-member Board of Trustees. The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board of Trustees controls the HSAC's instructional facility staffed by seven uncertified and 44 certificated full time teaching personnel who provide services to 402 students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting

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

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The full accrual basis of accounting is used for reporting purposes. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Revenues resulting from non-exchange transactions, in which the HSAC 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

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705; rather community schools are required to create a Five Year Budget Forecast that is approved by the School Board and submitted to ODE and to the School's Sponsor. The contract between the HSAC and its Sponsor does not prescribe any other budgetary process for the HSAC.

D. Cash

All monies received by HSAC are deposited in demand deposit accounts in the name of HSAC.

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 value as of the date received. HSAC maintained a capitalization threshold of one thousand dollars for inventory assets and ten thousand dollars for fixtures and improvements. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Improvements are capitalized. HSAC does not capitalize interest.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Capital Assets and Depreciation (Continued)

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

<u>Capital Asset Classification</u>	<u>Useful Life</u>
Building & leasehold improvements	39 years
Classroom Materials and Furniture	5 to 10 years
Computer and Other Equipment	3 to 5 years
Vehicles	3 to 10 years

F. Net Assets

Net Assets represent the difference between asset and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by HSAC or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. HSAC presently has no restricted net assets.

G. Intergovernmental Revenue

HSAC currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid Program ("DPIA"). Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

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

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

H. Compensated Absences

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

Full time non-teaching staff accrues sick leave during the year and is paid in July of each year for leave not used. The year end accrual is included in accrued payroll.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

I. Private Donations Intergovernmental Revenue

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

J. Estimates

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

NOTE 3 - DEPOSITS AND INVESTMENTS

At June 30, 2007, the carrying amount of HSAC deposits was \$ 180,572 and the bank balance was \$217,184. Of the bank balance, \$100,000 is covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that in the event of bank failure, HSAC will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$117,184 of HSAC's bank balance of \$217,184 was exposed to custodial credit risk because those deposits were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in HSAC's name. Although the securities were held by pledging institution's trust department and all statutory requirements for the investment of money had been followed, non compliance with Federal requirements could potentially subject the School to a successful claim by the FDIC.

HSAC 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 HSAC 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 one hundred five percent of the deposits being secured.

NOTE 4 - NOTES RECEIVABLES

In March 2005, a loan for \$200,000, at a 6 percent interest rate, was made to the Horizon Science Academy – Toledo. The original loan was comprised of twelve payments with the final payment due in March 2006. As of June 30, 2007, five payments have been made and the balance outstanding was \$139,184.

In August 2005, a loan for \$250, 000, at a 6.5 percent interest rate, was made to the Horizon Science Academy – Denison Middle School. As of June 30, 2007, the balance has been reduced to \$117,350 for the principal balance outstanding plus accrued interest.

In January 2006, a loan for \$100,000 at a 6.5 percent interest rate was made to the Horizon Science Academy – Cincinnati. As of June 30, 2007 no payments have been received.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 5 - CAPITAL ASSETS

A summary of the HSAC's capital assets at June 30, 2007, follows:

	Balance 06/30/06	Additions	Deductions	Balance 06/30/07
Capital Assets:				
Building and Improvements	\$ 822,000	\$ -	\$ -	\$ 822,000
Furniture, fixtures and equipment	\$ 213,436	\$ 7,716	\$ 4,225	\$ 216,927
School Buses	25,824	-	-	25,824
Total capital assets	<u>1,061,260</u>	<u>7,716</u>	<u>4,225</u>	<u>1,064,751</u>
Less: accumulated depreciation				
Building and Improvements	(18,929)	(21,077)	-	(40,006)
Furniture, fixtures and equipment	(64,804)	(41,513)	(4,225)	(102,092)
School Buses	(6,592)	(1,154)	-	(7,746)
Total accumulated depreciation	<u>(90,325)</u>	<u>(63,744)</u>	<u>(4,225)</u>	<u>(149,844)</u>
Total capital assets, Net of accumulated depreciation	<u>\$ 970,935</u>	<u>\$ (56,028)</u>	<u>\$ -</u>	<u>\$ 914,907</u>

NOTE 6 - RISK MANAGEMENT

A. Property and Liability

The HSAC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2007, the HSAC contracted with AJ Amer Agency Inc. for all of its insurance.

The building, furniture and equipment have a \$4,100,000 limit, the liability insurance has a \$1,000,000 single occurrence limit and \$2,000,000 annual aggregate and no deductible, and the professional liability has a \$1,000,000 single occurrence limit and \$2,000,000 aggregate and a \$1,000 deductible.

B. Workers' Compensation

The HSAC makes premium payments to the Ohio Workers' Compensation System (WC) for employee injury coverage. As of June 30, 2007, there have been no claims filed by employees with WC for the year ending June 30, 2007.

C. Employees Medical, Dental, Vision, Life and Disability Benefits

The HSAC contracted Medical Mutual through COSE to provide employee medical/surgical benefits. During the 2007 fiscal year, the cost to HSCA for medical and dental insurance benefits, net of employee contributions, was \$59,478.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 7 - CONTINGENCIES

A. Grants

The HSAC received financial assistance from State agencies in the form of grants. The expense of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the HSAC at June 30, 2007.

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 review of Fiscal Year 2006, HSAC does not have any related liability.

NOTE 8 - PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and HSAC is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of HSAC's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. HSAC's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005 were \$17,982, \$12,800, and \$14,441, respectively; 100 percent has been contributed for fiscal years 2007, 2006 and 2005.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 9 - PENSION PLANS - (Continued)

B. State Teachers Retirement System of Ohio

The HSAC participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one-time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. 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.

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. HSAC was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

HSAC's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005 were \$173,570, \$182,475 and \$177,719, respectively; 100 percent has been contributed for fiscal years 2007, 2006 and 2005. Contributions to the DC and Combined Plans for fiscal year 2007 were \$12,162 made by HSAC and \$17,988 made by the plan members.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 9 - PENSION PLANS - (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2007, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages.

NOTE 10 - POSTEMPLOYMENT BENEFITS

HSAC provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both Systems are on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll.

For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the HSAC, this amount equaled \$10,576 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2007, the balance in the Fund was \$4.1 billion. For the year ended June 30, 2007, net health care costs paid by STRS were \$265,558,000 and STRS had 122,934 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the HSAC District, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled \$5,573.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 10 - POSTEMPLOYMENT BENEFITS – (Continued)

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for next year. Expenses for health care at June 30, 2006, (the latest information available), were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants eligible to receive benefits.

NOTE 11 - PURCHASED SERVICES

For the fiscal year ended June 30, 2007, purchased service expenses were payments for services rendered by various vendors, and are as follows:

Management Fees	\$ 304,839
Building Rental	229,535
Building & Equipment Maintenance	37,545
Professional Services	37,625
Pupil Support Services	48,688
Utilities and Telephone	83,033
Other	<u>104,954</u>
Total	<u>\$ 846,219</u>

NOTE 12 - BUILDING SALE AND LEASE BACK

On December 1, 2005, a Lease was entered into with Breeze Inc. whereby the building was leased back to HSAC. The lease calls for monthly rental payments of \$19,000 for the lease term, which ends June 30, 2009. The HSAC is responsible for all repairs and maintenance of the building and property. The HSAC will also reimburse Breeze Inc. for the real estate taxes and the landlord's cost of the insurance. There is a five-year renewal option with a 5 percent increase in the rental payment.

The future minimum rental payments are:

Fiscal Year ending June 30, 2008	\$ 228,000
June 30, 2009	<u>228,000</u>
Total	<u>\$ 456,000</u>

NOTE 13 – MANAGEMENT COMPANY AGREEMENT

A management agreement was entered into on January 1, 2006 with Concept Schools (CS), an Illinois non-profit corporation. The services to be provided include, but are not limited to, human resources, board development, strategic planning, technology support, facility management, curriculum development, and purchasing services. The contract is for one year and will renew automatically until terminated by either party. The fees for the above services are 12 percent of the fees received from the state. For the fiscal year 2007 HSAC paid \$304,839 to Concept Schools for Management services.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 14 - SPONSORSHIP AGREEMENT

On November 19, 2004, Lucas County Educational Service Center assumed responsibility for sponsorship of HSAC. The Sponsor is responsible for evaluating the performance of HSAC and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. According to a contract agreed by both parties, HSAC pays 1 percent of its foundation revenues to the Sponsor. In fiscal year 2007, HSAC's compensation to the Sponsor was \$25,104.

NOTE 15 – CAPITAL LEASE –

On December 1, 2005, a Lease was entered into with Kenetic Leasing, Inc. whereby HSAC leased a modular building. The lease calls for monthly payments of \$17,034 for the lease term, which ends November 30, 2010. The HSAC is responsible for all repairs and maintenance of the building.

The future minimum payments are:

	Fiscal Year ending	June 30, 2008	\$ 204,408
		June 30, 2009	204,408
		June 30, 2010	204,408
		June 30, 2011	<u>85,170</u>
	Total		698,394
	Less Interest		<u>(98,357)</u>
	Principal Payments		<u><u>\$ 600,037</u></u>

NOTE 16 – SUBSEQUENT EVENTS

On August 6, 2007, the HSAC Board approved the loan of \$30,000 to Noble Academy of Cleveland.

On November 12, 2007 the Board approved the loan agreement between HSAC and the HSA-Cincinnati H.S. amended due to non-payment of the \$100,000. The HSA-Cincinnati H. S. promised to pay \$100,000 loan in 60 months at \$1,956 as the monthly payments with a 6.50 percent interest rate.

On April 27, 2008, the Board approved the modular building's sale to Breeze, Inc. and transference of the lease contract to Breeze, Inc. – to be resolved that difference between the offer \$800,000 and the payoff quote of \$496,762 shall be applied as credit towards cost of construction and remaining cost of construction to be amortized over the term of the lease and added to monthly lease payments made out Breeze, Inc.



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 of Cleveland
Cuyahoga County
6000 South Marginal Road
Cleveland, Ohio 44103

To the Board of Directors:

We have audited the basic financial statements of the Horizon Science Academy of Cleveland, Cuyahoga County, Ohio, (the Academy) as of and for the year ended June 30, 2007, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated November 5, 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 Academy's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Academy's internal control over financial reporting.

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

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

We consider finding numbers 2007-001 and 2007-002 described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting.

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

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www.auditor.state.oh.us

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

We also noted certain internal control matters that we reported to the Academy's management in a separate letter dated November 5, 2010.

Compliance and Other Matters

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

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



Mary Taylor, CPA
Auditor of State

November 5, 2010

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2007**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER	2007-001
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Developing and Implementing an Effective Monitoring Control System

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

Some effective monitoring controls not used by the Academy include:

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

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

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

Official’s Response:

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

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER	2007-002
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Cash Collection Process

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

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

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

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

Official's Response:

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

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2007**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Plan Taken; or Finding No <u>Longer Valid</u> ; Explain:
2006-001	INS Fees being paid for family members	Yes	
2006-002	Development and Implementing an Effective Monitoring Control System	No	Reissued as 2007-001
2006-003	Cash Collection Process	No	Reissued as 2007-002

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Mary Taylor, CPA
Auditor of State

HORIZON SCIENCE ACADEMY OF CLEVELAND

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 21, 2010**