



**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2009



Dave Yost • Auditor of State

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

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Dave Yost • Auditor of State

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, 2009, 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, 2009, 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 May 23, 2011, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the Academy's basic financial statements taken as a whole. The federal awards receipts and expenditure schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The federal awards receipts and expenditure schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

May 23, 2011

Horizon Science Academy of Cleveland
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2009
(Unaudited)

The discussion and analysis of Horizon Science Academy of Cleveland's (the Academy) 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 Academy's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2009 are as follows:

- Total assets were \$1,161,311.
- Total liabilities were \$266,271.
- Total net assets increased by \$231,734

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

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

The statement of net assets and the statement of revenues, expenses and change in net assets report the activities of the Academy, which encompass all the Academy'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 of Cleveland
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2009
(Unaudited)

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	Restated 2008
<u>Assets</u>		
Current and Other Assets	\$1,017,576	\$541,479
Capital Assets, Net	143,735	899,347
Total Assets	1,161,311	1,440,826
<u>Liabilities</u>		
Current Liabilities	254,443	326,358
Non-Current Liabilities	11,828	483,478
Total Liabilities	266,271	809,836
<u>Net Assets</u>		
Invested in Capital Assets	129,040	415,869
Unrestricted	766,000	247,437
Total Net Assets	\$895,040	\$663,306

Total assets decreased \$279,515. This decrease was due mainly to the reduction in accounts receivable.

Notes receivables decreased by \$52,840 from repayments on a loan to other charter schools.

Total liabilities decreased \$543,565. This decrease is due mainly to elimination of the mortgage note.

Horizon Science Academy of Cleveland
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2009
(Unaudited)

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

Table 2

Revenues, Expenses and Change in Net Assets		
	2009	Restated 2008
<u>Operating Revenue/Expense</u>		
Revenue		
Foundation Payments	\$3,434,116	\$2,717,058
Other Local Revenue	161,874	176,082
Total Operating Revenues	3,595,990	2,893,140
Expense		
Salaries	2,062,220	1,872,050
Fringe Benefits	427,083	400,125
Purchased Services	1,197,605	894,075
Materials and Supplies	275,412	178,210
Miscellaneous Expenses	78,896	109,320
Depreciation Expense	61,336	71,576
Total Operating Expenses	4,102,552	3,549,384
Net Operating Loss	(506,561)	(656,244)
<u>Non-Operating Revenues</u>		
Investment Earnings	34,305	165,356
Restricted Grant-In-Aid- Federal	627,505	235,098
Restricted Grant In-Aid- State	5,000	25,568
Contributions and Donations	71,486	6,580
Total Non-Operating Revenues	738,296	432,602
<u>Net Assets</u>		
Change in Net Assets	231,734	(223,642)
Net Assets at Beginning of Year	663,306	886,948
Net Assets at End of Year	\$895,040	\$663,306

Foundation support revenue and Federal Grant revenues increased \$717,058 and \$392,407, respectively, primarily as a result of increase in student enrollment. Total operating expenses increased \$553,168 also as a result of increased need for services resulting enrollment.

Foundation support is the primary support of the Academy, comprising 95% of operating revenue and 79% of total revenues. The Academy also received a significant portion of federal grants, which represent 15% of total revenue.

Salaries and benefits comprise the largest portion of operating expenses, representing 61 % of total operating expenses. Purchased services also represent a large portion of operating expenses, or 29%. Net assets increased \$231,734 resulting from revenues in excess of expenses.

Horizon Science Academy of Cleveland
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2009
(Unaudited)

Capital Assets

At the end of fiscal year 2009 the Academy had \$143,735, invested in furniture and equipment, and school vehicle (net of \$191,752 in accumulated depreciation). Table 3 shows fiscal year 2009 and fiscal year 2008:

Capital Assets				
	Beginning Balance June 30, 2008	Additions	Deletions	Ending Balance June 30, 2009
Instructional Equipment & Furniture	\$182,882	\$61,818	(\$6,744)	\$237,956
Office Equipment & Furniture	70,753	4,822	(3,869)	71,706
Vehicles	25,824	-	-	25,824
Building	<u>822,000</u>	<u>-</u>	<u>(822,000)</u>	<u>-</u>
Total Capital Assets	1,101,459	66,640	(832,613)	335,486
Less: Accumulated Depreciation	<u>(202,112)</u>	<u>(61,336)</u>	<u>71,696</u>	<u>(191,752)</u>
Net Capital Assets	<u>\$899,347</u>	<u>\$5,304</u>	<u>(\$760,916)</u>	<u>\$143,735</u>

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

Contacting the School's Financial Management

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the Academy'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 Cleveland, Inc., 6000 S. Marginal Rd, Cleveland, Ohio 44103.

Horizon Science Academy of Cleveland
Statement of Net Assets
For the Fiscal Year Ended June 30, 2009

ASSETS:

Current Assets:

Cash and cash equivalents	\$191,056
Prepaid Rent	567,997
Receivables:	
Accrued interest	6,339
Notes	244,918
Intergovernmental receivable	<u>7,266</u>
Total current assets	<u>1,017,576</u>

Noncurrent Assets:

Depreciable capital assets (Net of Accumulated Depreciation)	<u>143,735</u>
Total assets	<u>1,161,311</u>

LIABILITIES:

Current Liabilities:

Accounts payable	12,597
Accrued wages and benefits payable	283,082
Intergovernmental payable	17,191
Payroll liabilities	(61,840)
Notes Payable-current portion	546
Capital lease - current portion	<u>2,867</u>
Total current liabilities	<u>254,443</u>

Noncurrent Liabilities:

Capital Lease more than one year	<u>11,828</u>
Total noncurrent liabilities	<u>11,828</u>
Total liabilities	<u>266,271</u>

NET ASSETS:

Invested in capital assets	129,040
Unrestricted (deficit)	<u>766,000</u>
Total net assets	<u><u>\$895,040</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, 2009

OPERATING REVENUES:

Foundation payments	\$3,434,116
Food services	5,134
Classroom fees	33,903
Extracurricular activities	24,537
Other revenue	98,300
	<u>3,595,990</u>
Total operating revenues	<u>3,595,990</u>

OPERATING EXPENSES:

Salaries	2,062,220
Fringe benefits	427,083
Purchased services	1,197,605
Materials and supplies	275,412
Depreciation	61,336
Miscellaneous	78,896
	<u>4,102,552</u>
Total operating expenses	<u>4,102,552</u>

Operating loss	<u>(506,562)</u>
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NON-OPERATING REVENUES (EXPENSES):

Interest on Investment	(2,569)
Contributions and donations	71,486
Restricted grants in aid - federal	627,505
Restricted grants in aid - state	5,000
Other revenue	39,083
Interest expense	(2,209)
	<u>738,296</u>
Total non-operating revenues (expenses)	<u>738,296</u>

Change in net assets	231,734
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Net assets, beginning of year , (Restated)	<u>663,306</u>
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Net assets, end of year	<u>\$895,040</u>
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See accompanying notes to the basic financial statements.

Horizon Science Academy of Cleveland
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from State of Ohio	\$3,339,258
Cash received from other operating revenues	161,874
Cash payments to suppliers for goods and services	(1,481,733)
Cash payments to employees for services and benefits	(2,457,889)
Other cash payments	<u>(78,896)</u>
Net cash used for operating activities	<u>(517,386)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Federal grants received	684,276
State grants received	<u>5,000</u>
Net cash provided by noncapital financing activities	<u>689,276</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Principal received on notes receivable	52,832
Interest received on notes receivable	2,569
Principal paid on capital lease payable	(1,565)
Interest paid on capital lease payable	(766)
Payment for capital acquisitions	<u>(66,220)</u>
Net cash used for capital and related financing activities	<u>(13,150)</u>
Net decrease in cash and cash equivalents	158,740
Cash and cash equivalents at beginning of year	<u>32,316</u>
Cash and cash equivalents at end of year	<u><u>\$191,056</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES	
Operating loss	(\$506,562)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES:	
Depreciation	61,336
Changes in Assets and Liabilities:	
Increase in accounts receivable	(94,858)
Decrease in accounts payable	2,066
Increase in accrued wages and benefits payable	95,144
Increase in intergovernmental payable	(7,345)
Decrease in payroll liabilities	<u>(67,167)</u>
Total adjustments	<u>(10,824)</u>
Net cash used for operating activities	<u><u>(\$517,386)</u></u>

See accompanying notes to the basic financial statements.

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Horizon Science Academy of Cleveland
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009

1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

Horizon Science Academy of Cleveland, (the Academy), is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to address the needs of students in grades nine through twelve in Cleveland. The Academy, 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 Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy. The Academy qualifies as an exempt organization under Section 501(c) (3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax-exempt status.

The Academy was initially approved for operation in August 1999 under a charter with Ohio Department of Education which expired on June 30, 2004. The Academy is currently under contract with Lucas County Educational Service Center (the Sponsor) until June 30, 2012.

The Academy 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. In fiscal year 2009 the Academy employed 51 personnel for up to 525 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

The Academy's basic financial statements consist of a statement of net assets; a statement of revenues, expenses, and change in net assets; and a statement of cash flows.

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

B. Measurement Focus and Basis of Accounting

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

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 Academy receives value without directly giving equal value in return, such as grants, entitlements and donations are recognized in the period in which all eligibility requirements have been satisfied. Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. Expenses are recognized at the time they are incurred.

C. Budgetary Process

The contract between the Academy and its Sponsor prescribes an annual budget requirement in addition to preparing a 5-year forecast, which is to be updated on an annual basis. Chapter 5705.391(A) of the Ohio Revised Code also requires the Academy to prepare a 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 Academy is pooled in a central bank account. Any investment with an original maturity less than 90 days is considered a cash equivalent and any investment with an original maturity greater than 90 days is considered an investment.

E. Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of one thousand dollars. 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. The Academy does not capitalize interest.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Intergovernmental Revenues

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

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

G. Operating Revenues and Expenses

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

H. Compensated Absences

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

I. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors, or contracts. The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

J. Estimates

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

3. DEPOSITS

As of June 30, 2009, the Academy's bank balance of \$215,985 was covered by FDIC.

Horizon Science Academy of Cleveland
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009

4. CAPITAL ASSETS

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

Capital Assets				
	Beginning Balance June 30, 2008	Additions	Deletions	Ending Balance June 30, 2009
Instructional Equipment & Furniture	\$182,882	\$61,818	(\$6,744)	\$237,956
Office Equipment & Furniture	70,753	4,822	(3,869)	71,706
Vehicles	25,824	-	-	25,824
Building	<u>822,000</u>	<u>-</u>	<u>(822,000)</u>	<u>-</u>
Total Capital Assets	1,101,459	66,640	(832,613)	335,486
Less: Accumulated Depreciation	<u>(202,112)</u>	<u>(61,336)</u>	<u>71,696</u>	<u>(191,752)</u>
Net Capital Assets	<u>\$899,347</u>	<u>\$5,304</u>	<u>(\$760,916)</u>	<u>\$143,735</u>

5. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current school district rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2009, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2009, 2008, and 2007 were \$44,423, \$20,955, and \$17,982, respectively; 100 percent has been contributed for fiscal years 2009, 2008 and 2007.

Horizon Science Academy of Cleveland

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2009

5. DEFINED BENEFIT PENSION PLANS

B. State Teachers Retirement System of Ohio

Plan Description - The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

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

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

Funding Policy - For the fiscal year ended June 30, 2008, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2007, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2009, 2008, and 2007 were \$204,557, \$238,588, and \$173,570, respectively; 100 percent has been contributed for fiscal years 2009, 2008 and 2007. Contributions to the DC and Combined Plans for fiscal year 2009 were \$20,079 made by the Academy and \$26,884 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 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 Employees Retirement System

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

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2009, 4.16 percent of covered payroll was allocated to health care.

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 Academy's contributions for health care for the fiscal years ended June 30, 2009, 2008, and 2007 were \$20,330, \$6,257, and \$4,222, respectively; 100 percent has been contributed for fiscal years 2009, 2008 and 2007.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2008, this actuarially required allocation was 0.75 percent of covered payroll. The Academy District's contributions for Medicare Part B for the fiscal years ended June 30, 2009, 2008, and 2007 were \$3,665, \$988, and \$769, respectively; 100 percent has been contributed for fiscal years 2009, 2008, and 2007.

B. State Teachers Retirement System

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

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2009, STRS Ohio allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. The Academy's contributions for health care for the fiscal years ended June 30, 2009, 2008, and 2007 were \$15,735, \$17,042, and \$14,829, respectively; 100 percent has been contributed for fiscal years 2009, 2008 and 2007.

7. RISK MANAGEMENT

A. Property and Liability

The Academy is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2009, the Academy 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 in any of the last three fiscal years.

B. Workers Compensation

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

8. EMPLOYEE MEDICAL AND DENTAL BENEFITS

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

9. PURCHASED SERVICES

Purchased service expenses during fiscal year 2009 were as follows:

Purchased Services	
Type	Amount
Professional Services	\$528,110
Rent and Property Services	427,848
Advertising and Communications	76,027
Food Services	102,230
Pupil Transportation	39,698
Staff Travel Expenses	<u>23,692</u>
Total	<u>\$1,197,605</u>

10. OPERATING LEASES

On December 1, 2005 the Academy entered into a lease agreement with Breeze Inc. for the facilities located at 6000 S. Marginal Rd. Cleveland, OH 44103. The lease calls for monthly rental payments of \$19,000 for the lease term, which ends June 30, 2009. In July, 2008 the Academy entered into a lease amendment which will extent term of lease to June 30, 2018 with a 4% increase in the rental payment. The Academy is responsible for all repairs and maintenance of the building and property. Also, cost of construction of the gym shall be amortized over the life of the remaining lease term and added to monthly lease payments. Remaining balance of Rights under Land Installment Agreement dated December 1, 2005 shall be deducted from future rent payments over the life of the lease term. Breeze agreed to pay off Kinetic Leasing and the Academy assigned to Breeze Inc. all of its right, title and interest in and to the leases with Kinetic Leasing and Cleveland Middle School, and the Modular Building. The difference between our offer, \$800,000, and payoff to Kinetic Leasing shall be deducted from future rent payments over the life of the lease term. All other construction related expenses incurred by the tenant shall be deducted from future rent payments over the life of the lease term.

Horizon Science Academy of Cleveland
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009

11. CAPITAL LEASES

The Academy entered into one capitalized lease agreement for a copy machine/printer in the fiscal year ended June 30, 2009. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Principal payments for Fiscal Year 2009 totaled \$1,565. The following is a schedule of the future minimum lease payments required for the capital lease as of June 30, 2009.

	Interest	Principal	Total
2010	\$1,129	\$2,867	\$3,996
2011	878	3,118	3,996
2012	605	3,391	3,996
2013	308	3,688	3,996
2014	34	1,631	1,665
Total	\$2,954	\$14,695	\$17,649

12. CONTINGENCIES

A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the Academy. In fiscal year 2009, the Academy received grants from State and Federal agencies total of \$632,505.

B. Ohio Department of Education Enrollment Review

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the Academy. These reviews are conducted to ensure the Community School is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The review for Fiscal Year 2009 showed the Academy was underpaid by amount of 7,150 for FTE and overpaid by \$17,191 due to postsecondary school option. These amounts will to be refunded and deducted respectively; from the Academy's Foundation payments in fiscal year 2010.

13. PREPAID EXPENSES

Breeze agreed to pay off Kinetic Leasing and the Academy assigned to Breeze Inc. all of its right, title and interest in and to the leases with Kinetic Leasing and Cleveland Middle School, and the Modular Building. The difference between our offer and payoff to Kinetic Leasing shall be deducted from future rent payments over the life of the lease term. The Academy recorded an accounts receivable for \$567,997 for this difference. In July 2008, the new lease agreement included the accounts receivable being offset due to construction of a gym and extra classrooms for the Academy on the premises.

Horizon Science Academy of Cleveland
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009

14. NOTES RECEIVABLE

In the previous fiscal years, the Academy gave loans to other Horizon Science Academies according to its investment policy. The payments received towards to these notes receivables are as follows:

	Balance as of June 30, 2008	Payments Received	Balance as of June 30, 2009
Horizon Science Academy-Cincinnati	\$91,395	\$14,977	\$76,418
Horizon Science Academy-Denison Middle School	76,457	21,153	55,304
Horizon Science Academy-Toledo	<u>129,899</u>	<u>16,702</u>	<u>113,196</u>
Total	<u>\$297,750</u>	<u>\$52,832</u>	<u>\$244,918</u>

The notes were renegotiated with modified repayment terms and forgiveness of past due interest.

15. NOTES PAYABLE

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

	Balance at 7/1/2008	Payments	Balance at 6/30/2009	Due Within One Year
HSA – Cleveland Middle	<u>\$50,000</u>	<u>\$49,454</u>	<u>\$546</u>	<u>\$546</u>

16. SPONSORSHIP AGREEMENT

On July 1, 2004, Lucas County Educational Service Center assumed responsibility for sponsorship of the Academy. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. On May 2, 2007 the original contract was extended until June 30, 2012. According to the contract, the Academy pays 1% of its foundation revenues to the Sponsor. This rate will be increased to 1.5% as of July 1, 2009. In fiscal year 2009, the Academy's compensation to the Sponsor was \$34,188.

17. MANAGEMENT COMPANY AGREEMENT

The Academy contracted with Concepts Schools, Inc. to serve as the Academy's management company. The contract is renewed automatically every year in one year terms unless the Academy or the management company decides otherwise. According to the contract, the Academy transfers 12% of the funds received from the State. In fiscal year 2009, the Academy paid fees amount of \$413,660 to Concept Schools for management services.

18. RELATED PARTIES

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

19. RESTATEMENT

During fiscal year 2009, it was determined a mathematical error in reporting occurred in previous years which understated net assets. This restatement increased net assets at June 30, 2008 by \$353,321 from \$309,985 to \$663,306.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY
SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2009**

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Receipts	Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
<i>Passed Through Ohio Department of Education:</i>			
Nutrition Cluster:			
School Breakfast Program	10.553	\$10,057	\$10,057
National School Lunch Program	10.555	79,719	79,719
Total Nutrition Cluster		<u>89,776</u>	<u>89,776</u>
Total U.S. Department of Agriculture		<u>89,776</u>	<u>89,776</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
<i>Passed Through Ohio Department of Education:</i>			
Special Education: Grants to States	84.027	110,954	104,584
Title I Programs	84.010	407,877	407,306
Innovative Education Program	84.298	1,043	336
Technology Literacy Challenge Fund Grant	84.318	4,647	3,815
Safe and Drug Free Schools and Communities - State Grants	84.186	5,613	2,451
Improving Teacher Quality Program	84.367	<u>29,666</u>	<u>23,575</u>
Total U.S. Department of Education		<u>559,800</u>	<u>542,067</u>
Total Federal Assistance		<u><u>\$649,576</u></u>	<u><u>\$631,843</u></u>

The accompanying notes to this schedule are an integral part of this schedule.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2009**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the Schedule) reports the Academy's federal award programs' receipts and disbursements on a cash basis.

NOTE B – CHILD NUTRITION CLUSTER

The Academy commingles cash receipts from the U.S. Department of Agriculture with similar State grants and local receipts. When reporting expenditures on this Schedule, the Academy assumes it expends federal monies first.



Dave Yost • Auditor of State

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

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

To the Board of Directors:

We have audited the basic financial statements of the Horizon Science Academy of Cleveland, Cuyahoga County, Ohio, (the Academy) as of and for the year ended June 30, 2009, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated May 23, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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Horizon Science Academy of Cleveland
Cuyahoga County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We did note certain matters not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated May 23, 2011.

We intend this report solely for the information and use of management, the Board of Directors, the Community School's sponsor, and federal awarding agencies and pass-through entities, and others within the Academy. We intend it for no one other than these specified parties.

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

Dave Yost
Auditor of State

May 23, 2011



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO ITS MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

To the Board of Directors:

Compliance

We have audited the compliance of the Horizon Science Academy of Cleveland, Cuyahoga County, Ohio, (the Academy) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to its major federal program for the year ended June 30, 2009. The summary of auditor's results section of the accompanying schedule of findings identifies the Academy's major federal program. The Academy's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its major federal program. Our responsibility is to express an opinion on the Academy's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Academy's compliance with those requirements.

As described in finding 2009-001 in the accompanying schedule of findings and questioned costs, the Academy did not comply with requirements regarding allowable cost applicable to its Title 1 Grant major federal program. Compliance with this requirement is necessary, in our opinion, for the Academy to comply with requirements applicable to this program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Horizon Science Academy of Cleveland complied, in all material respects, with the requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2009.

Internal Control Over Compliance

The Academy's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Academy's internal control over compliance with the requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Academy's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weakness and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2009-001 to be a material weakness.

The Academy's response to the finding we identified is described in the accompanying schedule of findings and questioned costs. We did not audit the Academy's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of the audit committee, management, the Board of Directors, the Community School's sponsor, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Dave Yost
Auditor of State

May 23, 2011

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
FISCAL YEAR END JUNE 30, 2009**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	Yes
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Qualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	Title 1 CFDA #84.010
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

None

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
FISCAL YEAR END JUNE 30, 2009**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
--

Title One

Finding Number	2009-001
CFDA Title and Number	Title 1 Grants to Local Educational Agencies (Title 1 Part A of the ESEA) 84.010
Fiscal Year	2009
Federal Agency	U.S. Department of Education
Pass Through Agency	Ohio Department of Education

Questioned Cost / Material Weakness

Title I, Part A, Section 1120A(b) of ESEA (20 USC6321(b)) provides that a Local Education Agency (LEA) may use program funds only to supplement and, to the extent practical, increase the level of funds that would, in the absence of the Federal funds, be made available from non-Federal sources for the education of participating students. In no case may an LEA use Federal program funds to supplant funds from non-Federal sources.

The Academy is presumed to have supplanted if they meet certain criteria as list below:

- a. The LEA used Federal funds to provide services that the LEA was required to make available under other Federal, State or local laws.
- b. The LEA used Federal funds to provide services that the LEA provided with non-Federal funds in the prior year.
- c. The LEA used Title I, Part A or MEP funds to provide services for participating children that the LEA provided with non-Federal funds for nonparticipating children.

During testing of non-payroll expenditures, it was noted the Academy paid \$75,000 in management fees with federal monies. In the preceding year, these expenses were paid with non-federal monies, therefore the Academy used federal funds to supplant local funding as prohibited in the sections above.

In addition, the invoices for the expenses were not presented until after the Auditor of State explained to the Academy these expenditures were possible questioned cost. The invoices have no clear indication the expenses relate directly to Title I and dates on the invoices were up to six months after the payments were made to the management company.

Based on the above fact, the total questioned costs are \$75,000. We recommend the Academy monitor expenditures charged to federal funds to ensure it complies with the federal requirement to supplement rather than supplant.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
FISCAL YEAR END JUNE 30, 2009**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
--

Title One - Finding Number - 2009-001 (Continued)

Official's response:

The questioned costs paid for Practice OAA Test provided by Concept Schools, the School Management Database (which allows parents to track their children's academic progress) and Annual Professional Development and Evaluation for Teachers provided by Concepts Schools. These costs were part of the School's Comprehensive Continuous Improvement Plan (CCIP), which were reviewed and approved by the Federal Programs Consultants at ODE. The School spent those funds as indicated in its approved budget for its over 90% economically disadvantaged students. These services were supplemental services in nature and not part of the basic instructional services that a school is required to offer to its students. These services helped the School to become one of the best charter high schools in the State of Ohio and to earn in recent years Effective and Excellent academic ratings, designation as a School of Promise by ODE, and Blue Ribbon Recognition from the US Department of Education. The School mistakenly relied upon the approval of the CCIP by ODE as authority for these expenditures and now understands that a separate contract should have been awarded for these services. The fact that the School paid for these costs with non-federal funds in prior years demonstrates the School's commitment to academic success. Without the federal funds, we cannot guarantee that these services will be available to our students in the future.

Also according to ODE's Federal Programs' Title I "Supplement Not Supplant" guide line Use of Part A funds to supplement, not supplant regular non-federal funds, NCLB 1120A (b). In general, requirement intended to ensure that services provided with federal funds are in addition to, and do not replace or supplant, services that students would otherwise receive.

Auditor of State's Conclusion:

The criteria for supplanting per Title I, Part A, Section 1120A(b) of ESEA (20 USC6321(b)), includes, "The LEA used Federal funds to provide services that the LEA provided with non-Federal funds in the prior year". As explained in the official's response, the Academy provided these services with non-federal funds in the prior year. Therefore, the Academy is presumed to have supplanted which resulted in a questioned cost and material weakness.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2009**

<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:
2008-001	Development and Implementing an Effective Monitoring Control System	Yes	
2008-002	Cash Collection Process	Yes	



Dave Yost • Auditor of State

Independent Accountants' Report on Applying Agreed-Upon Procedures

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

To the Board of Directors:

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

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether the Horizon Science Academy of Cleveland (the Academy), 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.

1. We noted the Board adopted an anti-harassment policy at its meeting on January 19, 2008.
2. We read the policy, noting it included the following requirements from Ohio Rev. Code Section 3313.666(B):
 - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
 - (2) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666;
 - (3) A procedure for reporting prohibited incidents;
 - (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
 - (5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the “Family Educational Rights and Privacy Act of 1974,” 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;

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- (6) A procedure for documenting any prohibited incident that is reported;
- (7) A procedure for responding to and investigating any reported incident;
- (8) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
- (9) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;
- (10) A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

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 management and the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.



Dave Yost
Auditor of State

May 23, 2011



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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
JUNE 14, 2011**