



Dave Yost • Auditor of State

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

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Directors:

We have audited the accompanying basic financial statements of the Horizon Science Academy Denison Middle School, Cuyahoga County, Ohio (the Academy), as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Horizon Science Academy Denison Middle School, as of June 30, 2011, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2012, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the Academy's basic financial statements taken as a whole. The schedule of federal awards receipts and expenditures 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 schedule of federal awards receipts and expenditures 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

June 22, 2012

Horizon Science Academy Denison Middle School

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

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

Financial Highlights

Key financial highlights for fiscal year 2011 are as follows:

- Total assets were \$567,499.
- Total liabilities were \$163,774.
- Total net assets increased \$63,000.

Using this Financial Report

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

Reporting the Academy as a Whole

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The statement of net assets and the statement of revenues, expenses and 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 Denison Middle School
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)

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

Table 1

Net Assets		
	2011	2010
<u>Assets</u>		
Current and Other Assets	\$382,012	\$273,621
Capital Assets, Net	185,487	208,974
Total Assets	567,499	482,595
 <u>Liabilities</u>		
Current Liabilities	163,774	141,870
Total Liabilities	163,774	141,870
 <u>Net Assets</u>		
Invested in Capital Assets	185,487	208,974
Unrestricted	218,238	131,751
Total Net Assets	\$403,725	\$340,725

Total assets increased \$84,904. This increase is due mainly to an increase in cash and cash equivalents of \$241,537, caused mainly by significant state and federal grant revenues. Total liabilities increased \$21,904. This increase is due mainly to payments of payroll liabilities.

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

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

Table 2
Statement of Revenues, Expenses and Change in Net Assets

	<u>2011</u>	<u>2010</u>
OPERATING REVENUES:		
Foundation Payments	\$2,116,952	\$2,128,261
Food Services	4,484	1,674
Classroom Fees	22,412	28,650
Extracurricular Activities	7,064	5,473
Commissions	0	293
Other Revenue	24,505	55,665
Total Operating Revenues	<u>2,175,417</u>	<u>2,220,016</u>
OPERATING EXPENSES:		
Salaries	1,214,108	1,130,730
Fringe Benefits	307,212	289,094
Purchased Services	1,009,482	1,031,915
Materials and Supplies	158,107	155,226
Depreciation	72,876	104,339
Miscellaneous	84,616	106,387
Total Operating Expenses	<u>2,846,401</u>	<u>2,817,691</u>
Operating Loss	<u>(670,984)</u>	<u>(597,675)</u>
NON-OPERATING REVENUES (EXPENSES):		
Interest Expense	0	(1,503)
Restricted Grants in Aid - Federal	724,938	932,347
Restricted Grants in Aid - State	9,046	7,448
Repayment of Prior Year Foundation	0	(29,364)
Prior Year Foundation Settlement	0	70
Total Non-Operating Revenues (Expenses)	<u>733,984</u>	<u>908,998</u>
Change in Net Assets	<u>63,000</u>	<u>311,323</u>
Net Assets, Beginning of Year	<u>340,725</u>	<u>29,402</u>
Net Assets, End of Year	<u><u>\$403,725</u></u>	<u><u>\$340,725</u></u>

Foundation support revenue decreased by \$11,309, primarily as a result of a decrease in students. Federal grant revenue decreased \$207,409 due to decrease in student enrollment and ARRA funds. Total operating expenses increased \$28,710 also as a result of increased need for services resulting from enrollment changes.

Horizon Science Academy Denison Middle School

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2011

(Unaudited)

Foundation support is the primary support of the Academy, comprising 97% of operating revenue and 73% of total revenues. The Academy also received a significant portion of federal grants, which represent 25% of total revenue. Salaries and benefits comprise the largest portion of operating expenses, representing 53% of total operating expenses. Purchased services also represent a large portion of operating expenses, or 35%. Net assets increased \$63,000 resulting from revenues in excess of expenses.

Capital Assets

At the end of fiscal year 2011, the Academy had \$445,618 invested in furniture and equipment (\$185,487 net of accumulated depreciation). Table 3 shows fiscal year 2011:

Table 3

Capital Assets				
	Balance July 1, 2010	Additions	Deletions	Ending June 30, 2011
Leasehold Improvements	\$171,347	\$0	\$0	\$171,347
Furniture and Equipment	438,168	49,389	(213,286)	274,271
Total Fixed Assets	609,515	49,389	(213,286)	445,618
Less: Accumulated Depreciation	(400,541)	(72,876)	213,286	(260,131)
Net Fixed Assets	\$208,974	\$(23,487)	\$0	\$185,487

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

Contacting the Academy's Financial Management

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

Horizon Science Academy Denison Middle School

Statement of Net Assets

For the Fiscal Year Ended June 30, 2011

ASSETS:

Current Assets:

Cash and Cash Equivalents	<u>\$382,012</u>
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Total Current Assets	<u>382,012</u>
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Noncurrent Assets:

Capital Assets (Net of Accumulated Depreciation)	<u>185,487</u>
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Total Assets	<u>567,499</u>
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LIABILITIES:

Current Liabilities:

Accounts Payable	43,546
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Accrued Wages and Benefits Payable	103,267
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Payroll Liabilities	<u>16,961</u>
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Total Current Liabilities	<u>163,774</u>
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Total Liabilities	<u>163,774</u>
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NET ASSETS:

Invested in Capital Assets	185,487
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Unrestricted	<u>218,238</u>
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Total Net Assets	<u><u>\$403,725</u></u>
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See accompanying notes to the basic financial statements.

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

OPERATING REVENUES:

Foundation Payments	\$2,116,952
Food Services	4,484
Classroom Fees	22,412
Extracurricular Activities	7,064
Other Revenue	<u>24,505</u>

Total Operating Revenues	<u>2,175,417</u>
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OPERATING EXPENSES:

Salaries	1,214,108
Fringe Benefits	307,212
Purchased Services	1,009,482
Materials and Supplies	158,107
Depreciation	72,876
Miscellaneous	<u>84,616</u>

Total Operating Expenses	<u>2,846,401</u>
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Operating Loss	<u>(670,984)</u>
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NON-OPERATING REVENUES (EXPENSES):

Restricted Grants in Aid - Federal	724,938
Restricted Grants in Aid - State	<u>9,046</u>

Total Non-Operating Revenues (Expenses)	<u>733,984</u>
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Change in Net Assets	63,000
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Net Assets, Beginning of Year	<u>340,725</u>
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Net Assets, End of Year	<u><u>\$403,725</u></u>
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See accompanying notes to the basic financial statements.

Horizon Science Academy Denison Middle School

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash Received from State of Ohio	\$2,246,221
Cash Received from Other Operating Revenues	58,465
Cash Payments to Suppliers for Goods and Services	(1,164,831)
Cash Payments to Employees for Services and Benefits	(1,498,297)
Other Cash Payments	<u>(84,616)</u>
Net Cash Used for Operating Activities	<u>(443,058)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Federal Grants Received	724,938
State Grants Received	<u>9,046</u>
Net Cash Provided by Noncapital Financing Activities	<u>733,984</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Payment for Capital Acquisitions	<u>(49,389)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(49,389)</u>

Net Increase in Cash and Cash Equivalents	241,537
Cash and Cash Equivalents at Beginning of Year	<u>140,475</u>
Cash and Cash Equivalents at End of Year	<u><u>\$382,012</u></u>

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

Operating Loss	(\$670,984)
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**ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET
CASH USED FOR OPERATING ACTIVITIES:**

Depreciation	72,876
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Changes in Assets and Liabilities:

Decrease in Intergovernmental Receivables	129,269
Decrease in Prepaid Assets	3,879
Decrease in Accounts Payable	(1,121)
Increase in Accrued Wages and Benefits Payable	6,063
Increase in Payroll Liabilities	<u>16,960</u>
Total Adjustments	<u>227,926</u>

Net Cash Used for Operating Activities	<u><u>(\$443,058)</u></u>
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See accompanying notes to the basic financial statements.

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Horizon Science Academy Denison Middle School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

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

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

The Academy was approved for operation under contract with the Lucas County Educational Service Center (the Sponsor) for a period of five years commencing November 19, 2004. The contract was extended through May 30, 2011 on July 1, 2009.

The Academy operates under the direction of a self-appointed five-member Board of Directors. The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board of Directors controls the Academy's facility, which is currently staffed by 43 full and part time personnel who provide services to up to 316 students during the year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

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

Horizon Science Academy Denison Middle School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting

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 presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets. The Statement of Cash Flows provides information about how the Academy finances and meets the cash flow needs of its enterprise activities.

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

C. Budgetary Process

The contract between the Academy and its Sponsor prescribes an annual budget requirement in addition to preparing a 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. The Academy did not have any investments during fiscal year 2011.

E. Capital Assets and Depreciation

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

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

Horizon Science Academy Denison Middle School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Capital Assets and Depreciation (Continued)

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

F. Intergovernmental Revenues

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

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

G. Operating Revenues and Expenses

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

H. Compensated Absences

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

I. Net Assets

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

Horizon Science Academy Denison Middle School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2011, the Academy's bank balance of \$384,432 was covered by FDIC.

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

4. CAPITAL ASSETS

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

Capital Assets				
	Balance July 1, 2010	Additions	Deletions	Ending June 30, 2011
Leasehold Improvements	\$171,347	\$0	\$0	\$171,347
Furniture and Equipment	438,168	49,389	(213,286)	274,271
Total Fixed Assets	609,515	49,389	(213,286)	445,618
Less: Accumulated Depreciation	(400,541)	(72,876)	213,286	(260,131)
Net Fixed Assets	\$208,974	(\$23,487)	\$0	\$185,487

5. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Horizon Science Academy Denison Middle School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

5. DEFINED BENEFIT PENSION PLANS (Continued)

A. School Employees Retirement System (Continued)

Plan members are required to contribute 10% of their annual covered salary and the Horizon Science Academy Denison Middle School is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ending June 30, 2011, the allocation to pension and death benefits is 11.81%. The remaining 2.19% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The Academy's contributions to SERS for the years ended June 30, 2011, 2010, and 2009 were \$26,170, \$30,871, and \$24,934, respectively, which equaled the required contributions each year.

B. State Teachers Retirement System

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

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

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

Horizon Science Academy Denison Middle School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

5. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

Funding Policy – For fiscal year ended June 30, 2011, 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. 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, 2011, 2010, and 2009 were \$142,205, \$102,845, and \$115,603 respectively; 100 percent has been contributed for fiscal year 2011, 2010, and 2009.

C. Social Security System

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

6. POSTEMPLOYMENT BENEFITS

A. School Employee Retirement System

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with the Internal Revenue Code Section 401h. For 2011, 4.16 percent of covered payroll was allocated to health care. In addition employers pay a surcharge for employees earning less than an actuarially determined amount; for 2011, this amount was \$35,800.

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

Horizon Science Academy Denison Middle School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

6. POSTEMPLOYMENT BENEFITS (Continued)

A. School Employee Retirement System (Continued)

The Academy's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$7,776, \$14,128, and \$6,917, respectively; which equaled the required contribution for the fiscal years.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2011, this actuarially required allocation was 0.76 percent of covered payroll. The Academy's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 were \$1,402, \$2,581, and \$1,247, respectively; which equaled the required contribution for the fiscal years.

B. School 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 postemployment health care may be deducted from employer contributions. For 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Academy's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$10,938, \$7,911 and \$8,088 respectively; 100 percent has been contributed for fiscal years.

7. RISK MANAGEMENT

A. Property and Liability

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

B. Workers Compensation

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

Horizon Science Academy Denison Middle School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

8. EMPLOYEE MEDICAL AND DENTAL BENEFITS

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

9. PURCHASED SERVICES

Purchased service expenses during fiscal year 2011 were as follows:

<u>Type</u>	<u>Amount</u>
Professional Services	\$490,353
Rent and Property Services	495,594
Admin Travel	1,551
Advertising and Communications	11,939
Pupil Transportation	10,045
Total	<u>\$1,009,482</u>

10. OPERATING LEASES

The Academy entered into an operating lease in fiscal year 2006 for school facilities on 1700 Denison Avenue, Cleveland, Ohio 44109 with Breeze Inc. with a 2% annual increase until June 30, 2015. In fiscal year 2011, monthly rent was \$33,772 and the Academy paid \$401,386 in total to Breeze, Inc. during the year.

11. CONTINGENCIES

A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the Academy. In fiscal year 2011, the Academy received grants from State and Federal agencies totaling \$733,984.

B. Ohio Department of Education Enrollment Review

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

Horizon Science Academy Denison Middle School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

12. SPONSORSHIP AGREEMENT

On November 19, 2004, Lucas County Educational Service Center (now the Educational Service Center of Lake Erie West) assumed responsibility for sponsorship of the Academy. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. On March 3, 2011, the original contract was extended until June 30, 2016. According to the contract, the Academy pays one percent of its foundation revenues to the Sponsor. This rate was increased to 1.5 percent as of July 1, 2009. In fiscal year 2011, the Academy's compensation to the Sponsor was \$31,864.

13. MANAGEMENT COMPANY AGREEMENT

In January 2005, the Academy contracted with Concepts Schools, Inc. to serve as the Academy's management company. The contract is renewed automatically every year in one year terms unless the Academy or the management company decides otherwise. According to the contract, the Academy transfers 12% percent of the funds received from the State. In fiscal year 2011, the Academy paid fees in the amount of \$233,000 to Concept Schools for management services.

14. 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.

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

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2011**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Expenditures
U.S. DEPARTMENT OF AGRICULTURE <i>Passed Through Ohio Department of Education</i>			
Nutrition Cluster:			
School Breakfast Program	10.553	\$ 32,359	\$ 32,359
National School Lunch Program	10.555	<u>111,202</u>	<u>111,202</u>
Total U.S. Department of Agriculture		<u>143,561</u>	<u>143,561</u>
U.S. DEPARTMENT OF EDUCATION <i>Passed Through Ohio Department of Education</i>			
Special Education Cluster:			
Special Education Grants - FY 2010	84.027	10,322	-
Special Education Grants - FY 2011	84.027	68,352	58,030
Special Education Grants - FY 2010 - ARRA	84.391	<u>11,419</u>	<u>-</u>
Total Special Education Cluster		90,093	58,030
Title I Cluster:			
Title I - FY 2010	84.010	45,250	-
Title I - FY 2011	84.010	280,252	280,252
Title I - FY 2010 - ARRA	84.389	31,746	4,867
Title I - FY 2011 - ARRA	84.389	<u>49,611</u>	<u>49,611</u>
Total Title I Cluster		406,859	334,730
Technology Literacy Fund Grants - FY 2010	84.318	2,689	-
Technology Literacy Fund Grants - FY 2011	84.318	<u>934</u>	<u>934</u>
Total Technology Literacy Fund Grants		3,623	934
Improving Teacher Quality - FY 2011	84.367	10,043	10,043
Education Stabilization Fund (SFSF) - FY 2011 - ARRA	84.394	180,514	180,514
School Improvement Grants - FY 2010	84.377	3,000	-
Total U.S. Department of Education		<u>694,132</u>	<u>584,251</u>
TOTAL FEDERAL AWARDS RECEIPTS AND EXPENDITURES		<u>\$ 837,693</u>	<u>\$ 727,812</u>

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

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

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2011**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) reports the Horizon Science Academy Denison Middle School's (the Academy's) federal award programs' receipts and disbursements. The Schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

The Academy commingles cash receipts from the U.S. Department of Agriculture with similar State grants. 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 Denison Middle School
Cuyahoga County
1700 Denison Avenue
Cleveland, Ohio 44109

To the Board of Directors:

We have audited the financial statements of the Horizon Science Academy Denison Middle School, Cuyahoga County, (the Academy) as of and for the year ended June 30, 2011, and have issued our report thereon dated June 22, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

We intend this report solely for the information and use of the audit committee, management, the Board of Directors, the Academy'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

June 22, 2012



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

To the Board of Directors:

Compliance

We have audited the compliance of the Horizon Science Academy Denison Middle School (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 could directly and materially affect each of the Horizon Science Academy Denison Middle School's major federal programs for the year ended June 30, 2011. The *summary of auditor's results* section of the accompanying schedule of findings identifies the Academy's major federal programs. The Academy's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the Academy's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the 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 these 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 these requirements.

In our opinion, the Horizon Science Academy Denison Middle School complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2011.

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.

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.

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

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

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

Dave Yost
Auditor of State

June 22, 2012

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2011**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	No
(d)(1)(vii)	Major Programs (list):	ARRA State Fiscal Stabilization Fund – CFDA #84.394 <u>Title I Cluster:</u> ARRA and non-ARRA Title I, Grants to Local Educational Agencies – CFDA #84.389 and 84.010
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .315 (b)
JUNE 30, 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-001	The Academy had numerous balances inaccurately reported on the financial statements.	Yes	Corrected
2010-002	The Academy did not file its annual report by the required deadline.	Yes	Corrected
2010-003	The Academy used Federal Title I funds for purposes not allowable per the grant agreement	Yes	Corrected

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURE

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

To the Board of Directors:

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

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

1. We noted the Academy amended its anti-harassment policy at its meeting on June 18, 2012 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

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

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

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

Dave Yost
Auditor of State

June 22, 2012

Lausche Building, 615 Superior Ave., NW, Twelfth Floor, Cleveland, Ohio 44113-1801

Phone: 216-787-3665 or 800-626-2297 Fax: 216-787-3361

www.auditor.state.oh.us

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Dave Yost • Auditor of State

HORIZON SCIENCE ACADEMY DENISON MIDDLE SCHOOL

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 05, 2012**