



Balestra, Harr & Scherer, CPAs, Inc.

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

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HORIZON SCIENCE ACADEMY DENISON MIDDLE SCHOOL
CUYAHOGA COUNTY

SINGLE AUDIT

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



Dave Yost • Auditor of State

Board of Trustees
Horizon Science Academy Denison Middle School
1700 Denison Ave
Cleveland, Ohio 44109

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

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

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

Dave Yost
Auditor of State

March 26, 2013

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HORIZON SCIENCE ACADEMY DENISON MIDDLE SCHOOL
YEAR ENDED JUNE 30, 2012

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Balestra, Harr & Scherer, CPAs, Inc.

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

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Independent Auditor's Report

Members of the Board
Horizon Science Academy Denison Middle School
Cuyahoga County
1700 Denison Avenue
Cleveland, Ohio 44109

We have audited the accompanying financial statements of the business-type activities of the Horizon Science Academy Denison Middle School, Cuyahoga County, Ohio, (the Academy), as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the 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 business-type activities of Horizon Science Academy Denison Middle School, Cuyahoga County, Ohio, as of June 30, 2012, and the change in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2013, 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 do not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. The report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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.

Balestra, Harr & Scherer, CPAs
Balestra, Harr & Scherer, CPAs, Inc.
January 18, 2013

Horizon Science Academy Denison Middle School
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(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, 2012. 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 2012 are as follows:

- Total assets were \$530,751.
- Total liabilities were \$144,868.
- Total net assets decreased \$17,842.

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, 2012
(Unaudited)

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

Table 1

	2012	2011
<u>Assets</u>		
Current and Other Assets	\$281,064	\$382,012
Capital Assets, Net	249,687	185,487
Total Assets	530,751	567,499
<u>Liabilities</u>		
Current Liabilities	144,868	163,774
Total Liabilities	144,868	163,774
<u>Net Assets</u>		
Invested in Capital Assets	249,687	185,487
Unrestricted	136,196	218,238
Total Net Assets	\$385,883	\$403,725

Total assets decreased \$36,748. This decrease is due mainly to a decrease in cash and cash equivalents of \$174,921. Total liabilities decreased \$18,906. This decrease is due mainly to a reduction in accounts payable.

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

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

Table 2

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES:		
Foundation payments	\$2,321,799	\$2,116,952
Food services	1,521	4,484
Classroom fees	4,890	22,412
Extracurricular activities	27,381	7,064
Other revenue	15,786	24,505
Total operating revenues	<u>2,371,377</u>	<u>2,175,417</u>
OPERATING EXPENSES:		
Salaries	1,335,944	1,214,108
Fringe benefits	331,808	307,212
Purchased services	1,122,251	1,009,482
Materials and supplies	158,089	158,107
Depreciation	77,184	72,876
Miscellaneous	88,185	84,616
Total operating expenses	<u>3,113,461</u>	<u>2,846,401</u>
Operating loss	<u>(742,084)</u>	<u>(670,984)</u>
NON-OPERATING REVENUES (EXPENSES):		
Restricted grants in aid - federal	720,499	724,938
Restricted grants in aid - state	3,743	9,046
Total non-operating revenues (expenses)	<u>724,242</u>	<u>733,984</u>
Change in net assets	(17,842)	63,000
Net assets, beginning of year	<u>403,725</u>	<u>340,725</u>
Net assets, end of year	<u>\$385,883</u>	<u>\$403,725</u>

Foundation support revenue increased by \$204,847, primarily as a result of an increase in enrollment. Total operating expenses increased \$267,060 also as a result of increased need for services resulting from enrollment changes.

Foundation support is the primary support of the Academy, comprising 98% of operating revenue and 75% of total revenues. The Academy also received a significant portion of federal grants, which represent 23% of total revenue. Salaries and benefits comprise the largest portion of operating expenses, representing 54% of total operating expenses. Purchased services also represent a large portion of operating expenses, at 36%. Net assets decreased \$17,842 resulting from expenses in excess of revenues.

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

Capital Assets

At the end of fiscal year 2012 the Academy had \$249,687, invested in furniture and equipment, and leasehold improvements (net of \$337,315 in accumulated depreciation). Table 3 shows fiscal year 2012:

Table 3

Capital Assets				
	Balance			Ending
	July 1, 2011	Additions	Deletions	June 30, 2012
Leasehold Improvements	\$171,347	\$ -	\$ -	\$171,347
Furniture and Equipment	274,271	141,384	-	415,655
Total Fixed Assets	445,618	141,384	-	587,002
Less: Accumulated Depreciation	(260,131)	(77,184)	-	(337,315)
Net Fixed Assets	\$185,487	\$64,200	\$ -	\$249,687

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

As of June 30, 2012

ASSETS:

Current Assets:

Cash and cash equivalents	\$207,091
Prepaid Items	438
Intergovernmental receivable	<u>73,535</u>
Total current assets	<u>281,064</u>

Noncurrent Assets:

Capital assets (net of accumulated depreciation)	<u>249,687</u>
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Total assets	<u>530,751</u>
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LIABILITIES:

Current Liabilities:

Accrued wages and benefits payable	132,747
Payroll liabilities	<u>12,121</u>
Total current liabilities	<u>144,868</u>

Total liabilities	<u>144,868</u>
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NET ASSETS:

Invested in capital assets	249,687
Unrestricted (deficit)	<u>136,196</u>

Total net assets	<u>\$385,883</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, 2012

OPERATING REVENUES:

Foundation payments	\$2,321,799
Food services	1,521
Classroom fees	4,890
Extracurricular activities	27,381
Other revenue	15,786
Total operating revenues	<u>2,371,377</u>

OPERATING EXPENSES:

Salaries	1,335,944
Fringe benefits	331,808
Purchased services	1,122,251
Materials and supplies	158,089
Depreciation	77,184
Miscellaneous	88,185
Total operating expenses	<u>3,113,461</u>

Operating loss (742,084)

NON-OPERATING REVENUES (EXPENSES):

Restricted grants in aid - federal	720,499
Restricted grants in aid - state	3,743
Total non-operating revenues (expenses)	<u>724,242</u>

Change in net assets (17,842)

Net assets, beginning of year 403,725

Net assets, end of year \$385,883

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, 2012

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from State of Ohio	\$2,241,696
Cash received from other operating revenues	49,578
Cash payments to suppliers for goods and services	(1,323,886)
Cash payments to employees for services and benefits	(1,636,983)
Other cash payments	(88,184)
Net cash used for operating activities	<u>(757,779)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Federal grants received	720,499
State grants received	3,743
Net cash provided by noncapital financing activities	<u>724,242</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Payment for capital acquisitions	(141,384)
Net cash used for capital and related financing activities	<u>(141,384)</u>

Net decrease in cash and cash equivalents (174,921)

Cash and cash equivalents at beginning of year 382,012

Cash and cash equivalents at end of year \$207,091

RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES

Operating loss (\$742,084)

ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES:

Depreciation 77,184

Changes in Assets and Liabilities:

Increase in intergovernmental receivable (73,535)

Increase in prepaid items (438)

Decrease in accounts payable (43,546)

Increase in accrued wages and benefits payable 29,480

Decrease in payroll liabilities (4,840)

Total adjustments (15,695)

Net cash used for operating activities (\$757,779)

See accompanying notes to the basic financial statements.

Horizon Science Academy Denison Middle School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

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 in July of 2009, and extended through June 30, 2016 in May of 2011.

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 37 full and part time personnel who provide services to up to 317 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.

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.

Horizon Science Academy Denison Middle School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

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. The Academy did not have any investments during fiscal year 2012.

E. Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The 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.

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

Horizon Science Academy Denison Middle School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2012, the Academy had no restricted net assets.

J. Estimates

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

Horizon Science Academy Denison Middle School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

3. DEPOSITS

As of June 30, 2012, the Academy's bank balance of \$279,925 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, 2012, was as follows:

	Capital Assets			
	Balance			Ending
	July 1, 2011	Additions	Deletions	June 30, 2012
Leasehold Improvements	\$171,347	\$ -	\$ -	\$171,347
Furniture and Equipment	274,271	141,384	-	415,655
Total Fixed Assets	445,618	141,384	-	587,002
Less: Accumulated Depreciation	(260,131)	(77,184)	-	(337,315)
Net Fixed Assets	\$185,487	\$64,200	\$ -	\$249,687

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, 2012

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 Academy is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ending June 30, 2012, the allocation to pension and death benefits is 12.70%. The remaining 1.30% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The Academy's contributions to SERS for the years ended June 30, 2012, 2011, and 2010 were \$17,765, \$26,170, and \$30,871, 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.

Funding Policy – For fiscal year ended June 30, 2012, 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.

Horizon Science Academy Denison Middle School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

5. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

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

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011, and 2010 were \$130,920, \$142,205, and \$102,845 respectively; 100 percent has been contributed for fiscal year 2012, 2011, and 2010.

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, 2012, no 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 2012, 0.55 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 2012, this amount was \$35,800.

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

The Academy's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were \$679, \$7,776, and \$14,128, 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 2012, this actuarially required allocation was 0.75 percent of covered payroll. The Academy's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$827, \$1,402, and \$2,581, respectively; which equaled the required contribution for the fiscal years.

Horizon Science Academy Denison Middle School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

6. POSTEMPLOYMENT BENEFITS (Continued)

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 2012, 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, 2012, 2011, and 2010 were \$10,071, \$10,938 and \$7,911 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 2012, 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.

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 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 2012 were as follows:

<u>Type</u>	<u>Amount</u>
Professional Services	\$585,911
Rent and Property Services	504,769
Admin Travel	3,489
Advertising and Communications	13,805
Pupil Transportation	14,277
Total	<u>\$1,122,251</u>

Horizon Science Academy Denison Middle School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

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 2% annual increases until June 30, 2015. In fiscal year 2012, monthly rent was \$34,447 and the Academy paid amount of \$413,367 to Breeze, Inc.

11. CONTINGENCIES

A. Grants

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

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 2012, the Academy received grants from State and Federal agencies total of \$724,242.

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 Academy is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated.

According to the FTE review made for fiscal year 2012, the Academy was underpaid by \$4,804. This amount is reflected under Intergovernmental Receivable in the Statement of Net Assets.

12. SPONSORSHIP AGREEMENT

On November 19, 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 one percent of its foundation revenues to the Sponsor. This rate will be increased to 1.5 percent as of July 1, 2009. In fiscal year 2012, the Academy's compensation to the Sponsor was \$34,755.

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 2012, the Academy paid fees amount of \$278,033 to Concept Schools for management services.

14. RELATED PARTIES

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

Horizon Science Academy Denison Middle School
Cuyahoga County
Schedule of Federal Awards Receipts and Expenditures
For the Fiscal Year Ended June 30, 2012

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Expenditures
United States Department of Agriculture				
<i>Passed through Ohio Department of Education</i>				
<i>Child Nutrition Cluster:</i>				
National School Lunch Program	3L60	10.555	\$ 121,995	\$ 121,995
School Breakfast Program	3L70	10.553	29,221	29,221
Total Child Nutrition Cluster			<u>151,216</u>	<u>151,216</u>
Total United States Department of Agriculture			151,216	151,216
United States Department of Education				
<i>Passed through Ohio Department of Education</i>				
<i>Title I, Part A Cluster:</i>				
Title I Grants to Local Educational Agencies	3M00	84.010	276,801	267,150
Total Title I, Part A Cluster			<u>276,801</u>	<u>267,150</u>
<i>Special Education Cluster:</i>				
Special Education - Grants to States	3M20	84.027	60,254	59,863
Total Special Education Cluster			<u>60,254</u>	<u>59,863</u>
<i>Education Technology State Grants Cluster</i>				
Education Technology State Grants	3S20	84.318	1,988	1,221
Total Education Technology State Grants Cluster			<u>1,988</u>	<u>1,221</u>
Improving Teacher Quality State Grants	3Y60	84.367	4,141	1,981
Education Jobs Fund	3ET0	84.410	128,756	133,099
State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, ARRA	3FD0	84.395	26,258	54,492
Total United States Department of Education			<u>498,198</u>	<u>517,806</u>
Total Federal Financial Assistance			<u>\$ 649,414</u>	<u>\$ 669,022</u>

See accompanying notes to the Schedule of Federal Awards Receipts and Expenditures.

Horizon Science Academy Denison Middle School
Notes to the Schedule of Federal Awards Receipts and Expenditures
For the Fiscal Year Ended June 30, 2012

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) summarizes activity of the Academy's federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B – NATIONAL SCHOOL LUNCH AND BREAKFAST PROGRAMS

Federal funds received from the National School Lunch and Breakfast Programs were commingled with state subsidy and local revenue from the sale of meals. It was assumed that federal dollars were expended first.



Balestra, Harr & Scherer, CPAs, Inc.

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

Members of the Board
Horizon Science Academy Denison Middle School
Cuyahoga County
1700 Denison Avenue
Cleveland, Ohio 44109

We have audited the financial statements of the business-type activities of Horizon Science Academy Denison Middle School, Cuyahoga County, Ohio, (the Academy), as of and for the year ended June 30, 2012, and have issued our report thereon dated January 18, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Balestra, Harr & Scherer, CPAs

Balestra, Harr & Scherer, CPAs, Inc.
January 18, 2013



Balestra, Harr & Scherer, CPAs, Inc.

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Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133

Members of the Board
Horizon Science Academy Denison Middle School
Cuyahoga County
1700 Denison Avenue
Cleveland, Ohio 44109

Compliance

We have audited the compliance of Horizon Science Academy Denison Middle School, 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 could directly and materially affect each of Horizon Science Academy Denison Middle Academy's major federal programs for the year ended June 30, 2012. 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 express an opinion 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, 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, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with these requirements that, while not affecting our opinion on compliance, OMB Circular A-133 requires us to report. The accompanying schedule of findings lists this instance as Finding 2012-01.

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 requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining 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 weaknesses 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 as item 2012-01 to be a material weakness.

The Academy's response to the finding we identified is described in the accompanying schedule of findings. 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 management, the Board Members, the Community School's sponsor, others within the entity, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

Balestra, Harr & Scherer, CPAs

Balestra, Harr & Scherer, CPAs, Inc.
January 18, 2013

**Horizon Science Academy Denison Middle School
Cuyahoga County, Ohio**

**Schedule of Findings
OMB Circular A-133 Section §.505
June 30, 2012**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other significant control deficiencies reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	Yes
(d)(1)(iv)	Were there any other significant internal control deficiencies reported for major federal programs?	No
(d)(1)(v)	Type of Major Program's Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under §.510(a)?	Yes
(d)(1)(vii)	Major Programs (list):	Title I Cluster: Title I Grants to Local Educational Agencies - CFDA #84.010 Education Jobs Fund – CFDA #84.410
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

**Horizon Science Academy Denison Middle School
Cuyahoga County, Ohio**

**Schedule of Findings
OMB Circular A-133 Section §.505
June 30, 2012**

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

None noted

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

FINDING NUMBER 2012-01

Finding Number	2012-01
CFDA Title and Number	Title I Cluster: Title I Grants to Local Educational Agencies - CFDA #84.010 Education Jobs Fund – CFDA #84.410
Federal Award Year	2012
Federal Agency	United States Department of Education

Material Weakness/Noncompliance Citation – Reporting

OMB Circular A-133 Section 200 (b) state that non-Federal entities that expend \$500,000 or more in a year in Federal awards shall have a single audit conducted in accordance with Section 500 except when they elect to have a program-specific audit conducted in accordance with paragraph (c) of this section.

OMB Circular A-133 Section 320 (a) state that the audit shall be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section shall be submitted within the earlier of 30 days after receipt of the auditor’s report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for the audit. Unless restricted by law or regulation, the auditee shall make copies available for public inspection.

The Academy filed its June 30, 2011 data collection form and reporting package with the federal audit clearinghouse on June 26, 2012.

We recommend the Academy submit its data collection form and reporting package within the time frame as required by OMB Circular A-133 Section 320.

Official’s Response:

The Academy will file the report on time in the future.

**Horizon Science Academy Denison Middle School
Cuyahoga County, Ohio**

**Corrective Action Plan
OMB Circular A-133 §315(c)
June 30, 2012**

Corrective Action Plan for Finding 2012-01:

Finding Control Number: 2012-01

Summary of Finding: The Academy did not submit the data collection form and reporting package within the required time frame for fiscal year 2011.

Statement of Concurrence: The Academy is aware of Finding 2012-01 and agrees that the finding as stated is correct.

Corrective Action: The Data Collection Form for 2011 has been filed.

Contact Person: The official responsible for completing the corrective action is listed below:

Ramazan Celep
Treasurer
Phone: (216) 298 -9002
Fax: (216) 298-9008
Email: celep@conceptschoools.org



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
APRIL 9, 2013**