



# Balestra, Harr & Scherer, CPAs, Inc.

---

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

[www.bhscpas.com](http://www.bhscpas.com)

HORIZON SCIENCE ACADEMY OF CLEVELAND  
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 of Cleveland  
6000 South Marginal Road  
Cleveland, Ohio 44103

We have reviewed the *Independent Auditor's Report* of the Horizon Science Academy of Cleveland, 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 of Cleveland 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

**This page intentionally left blank.**

HORIZON SCIENCE ACADEMY OF CLEVELAND  
YEAR ENDED JUNE 30, 2012

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
Independent Auditor’s Report .....	1
Management’s Discussion and Analysis .....	3
Basic Financial Statements:	
Statement of Net Assets .....	7
Statement of Revenues, Expenses, and Change in Net Assets.....	8
Statement of Cash Flows.....	9
Notes to the Basic Financial Statements.....	10
Schedule of Federal Awards Receipts and Expenditures .....	20
Notes to the Schedule of Federal Awards Receipts and Expenditures .....	21
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	22
Report on Compliance With Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133 .....	24
Schedule of Findings – OMB Circular A-133 §.505 .....	26
Corrective Action Plan .....	28

**This page intentionally left blank.**



# Balestra, Harr & Scherer, CPAs, Inc.

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

[www.bhscpas.com](http://www.bhscpas.com)

## Independent Auditor's Report

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

We have audited the accompanying financial statements of the business-type activities of the Horizon Science Academy of Cleveland, 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 of Cleveland, 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 of Cleveland**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2012*  
*(Unaudited)*

---

The discussion and analysis of Horizon Science Academy of Cleveland's (the Academy) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 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 \$1,002,457.
- Total liabilities were \$250,060.
- Total net assets decreased by \$316,476.

### **Using this Financial Report**

This annual report consists of a series of financial statements and notes to those statements.

These statements report the Academy's *net assets* and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the Academy has improved or diminished. The causes of this change may be the result of many factors; some financial some not. Non-financial factors include the Academy's student enrollment, per pupil funding as determined by the State of Ohio, change in technology, required educational programs and other factors.

The *Statement of Net Assets and Statement of Revenues, Expenses, and Change in Net Assets* reflect how the Academy did financially during fiscal year 2012. These statements include *all assets and liabilities* using the *accrual basis* of accounting similar to the accounting used by most private sector companies. This basis of accounting includes all of the current year revenues and expenses regardless of when cash is received or paid. These statements can be found on pages 7 and 8 of this report.

The *Statement of Cash Flows* provides information about how the Academy finances and meets the cash flow needs of its operations. The Academy uses enterprise presentation for all its activities. The *Statement of Cash Flows* can be found on page 9 of this report.

### **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 of Cleveland**  
*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
<b>Assets</b>		
Current and Other Assets	862,039	1,149,990
Capital Assets, Net	<u>140,418</u>	<u>115,091</u>
<b>Total Assets</b>	<b>1,002,457</b>	<b>1,265,081</b>
<b>Liabilities</b>		
Current Liabilities	248,429	190,889
Non-Current Liabilities	<u>1,631</u>	<u>5,319</u>
<b>Total Liabilities</b>	<b>250,060</b>	<b>196,208</b>
<b>Net Assets</b>		
Invested in Capital Assets, net of related debt	135,099	115,091
Unrestricted	<u>617,298</u>	<u>953,782</u>
<b>Total Net Assets</b>	<b><u><u>752,397</u></u></b>	<b><u><u>1,068,873</u></u></b>

Total assets decreased \$262,624. This decrease is due mainly to a decrease in cash and a decrease in prepaid expenses for rent. Loan receivables decreased by \$26,335 due to repayments of loans to other charter schools. Intergovernmental receivables increased by \$143,959. Total liabilities increased \$53,852. This increase is due mainly to an increase in other current liabilities and accounts payable.

**Horizon Science Academy of Cleveland**  
*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.

	2012	2011
<b>OPERATING REVENUES:</b>		
Foundation payments	\$3,114,320	\$2,897,312
Food services	9,454	5,320
Classroom fees	34,882	98,519
Extracurricular activities	68,405	16,937
Other revenue	58,702	113,951
Total operating revenues	3,285,763	3,132,039
<b>OPERATING EXPENSES:</b>		
Salaries	1,961,350	1,941,158
Fringe benefits	514,125	503,718
Purchased services	1,644,117	1,312,187
Materials and supplies	262,792	194,895
Depreciation	72,951	49,181
Miscellaneous	87,284	75,767
Total operating expenses	4,542,619	4,076,906
Operating loss	(1,256,856)	(944,867)
<b>NON-OPERATING REVENUES (EXPENSES):</b>		
Interest on Investment	2,093	1,858
Contributions and donations	75,813	53,480
Restricted grants in aid - federal	837,626	1,008,314
Restricted grants in aid - state	3,261	7,899
Donated management fee	25,000	-
Interest expense	(3,413)	(3,600)
Total non-operating revenues (expenses)	940,380	1,067,951
Change in net assets	(316,476)	123,084
Net assets, beginning of year	1,068,873	945,789
Net assets, end of year	\$752,397	\$1,068,873

Foundation support revenue increased by \$217,008 primarily as a result of increase in student enrollment. Federal Grant revenues decreased by \$170,688 due to ARRA Grants being discontinued. Total operating expenses increased \$465,714 also as a result of mainly increases for salaries and services.

Foundation support is the primary support of the Academy, comprising 95% of operating revenue and 74% of total revenues. The Academy also received a significant portion of federal grants, which represent 22% and 4% of total revenue.

Salaries and benefits comprise the largest portion of operating expenses, representing 56% of total operating expenses. Purchased services also represent a large portion of operating expenses, or 36%. Net assets decreased \$316,476 resulting from expenses in excess of revenues.

**Horizon Science Academy of Cleveland**  
*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 \$306,222, invested in furniture and equipment, and school vehicles (\$140,418 net of accumulated depreciation). Table 3 shows fiscal year 2012:

Table 3

	<b>Capital Assets</b>			<b>Ending June 30, 2012</b>
	<b>Balance July 1, 2011</b>	<b>Additions</b>	<b>Deletions</b>	
Furniture and Equipment	\$184,843	\$91,283	(\$2,723)	\$273,403
School Vehicles	25,824	6,995	-	32,819
<b>Total Fixed Assets</b>	<b>210,667</b>	<b>98,278</b>	<b>(2,723)</b>	<b>306,222</b>
Less: Accumulated Depreciation	(95,576)	(72,951)	2,723	(165,804)
<b>Net Fixed Assets</b>	<b>\$115,091</b>	<b>\$25,327</b>	<b>\$-</b>	<b>\$140,418</b>

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

**Debt**

The Academy entered into a promissory note with the Horizon Science Academy Cleveland Elementary School and Horizon Science Academy Cleveland Middle School. As of June 30, 2012, the Academy has paid off both outstanding principle balances.

For more information on the Academy's debt see Note 15 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 Cleveland High School, 6000 S. Marginal Rd, Cleveland, Ohio 44103.

**Horizon Science Academy of Cleveland**

*Statement of Net Assets*

*As of June 30, 2012*

---

**ASSETS:**

**Current Assets:**

Cash and cash equivalents	\$1,071
Prepaid rent	617,151
Other prepaid expenses	96,974
Intergovernmental receivable	<u>146,843</u>
 Total current assets	 <u>862,039</u>

**Noncurrent Assets:**

Depreciable capital assets (Net of Accumulated Depreciation)	<u>140,418</u>
 Total assets	 <u>1,002,457</u>

**LIABILITIES:**

**Current Liabilities:**

Accounts payable	53,012
Accrued wages and benefits payable	189,107
Intergovernmental payable	2,622
Capital lease payable – current portion	<u>3,688</u>
 Total current liabilities	 <u>248,429</u>

**Noncurrent Liabilities:**

Capital lease payable – non-current portion	<u>1,631</u>
 Total noncurrent liabilities	 <u>1,631</u>
 Total liabilities	 <u>250,060</u>

**NET ASSETS:**

Invested in capital assets, net of related debt	135,099
Unrestricted (deficit)	<u>617,298</u>
 Total net assets	 <u><u>\$752,397</u></u>

See accompanying notes to the basic financial statements.

**Horizon Science Academy of Cleveland**  
*Statement of Revenues, Expenses and Change in Net Assets*  
*For the Fiscal Year Ended June 30, 2012*

---

<b>OPERATING REVENUES:</b>	
Foundation payments	\$3,114,320
Food services	9,454
Classroom fees	34,882
Extracurricular activities	68,405
Other revenue	58,702
Total operating revenues	3,285,763
<b>OPERATING EXPENSES:</b>	
Salaries	1,961,350
Fringe benefits	514,125
Purchased services	1,644,117
Materials and supplies	262,792
Depreciation	72,951
Miscellaneous	87,284
Total operating expenses	4,542,619
Operating loss	(1,256,856)
<b>NON-OPERATING REVENUES</b>	
<b>(EXPENSES):</b>	
Interest on investment	2,093
Contributions and donations	75,813
Restricted grants in aid - federal	837,626
Restricted grants in aid - state	3,261
Donated management fee	25,000
Interest expense	(3,413)
Total non-operating revenues (expenses)	940,380
Change in net assets	(316,476)
Net assets, beginning of year	1,068,873
Net assets, end of year	\$752,397

See accompanying notes to the basic financial statements.

**Horizon Science Academy of Cleveland**  
*Statement of Cash Flows*  
For the Fiscal Year Ended June 30, 2012

---

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash received from State of Ohio	\$2,970,361
Cash received from other operating revenues	177,443
Cash payments to suppliers for goods and services	(1,868,199)
Cash payments to employees for services and benefits	(2,406,775)
Other cash payments	(87,284)
Net cash used for operating activities	<u>(1,214,454)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>	
Federal grants received	837,626
State grants received	3,261
Interest received on investments	2,093
Contributions and donations	75,813
Net cash provided by noncapital financing activities	<u>918,793</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Principal received on notes receivable	26,335
Interest received on notes receivable	2,647
Principal paid on capital lease payable	(3,391)
Interest paid on capital lease payable	(889)
Principal paid on notes payable	(18,052)
Interest paid on notes payable	(2,305)
Payment for capital acquisitions	(98,278)
Net cash used for capital and related financing activities	<u>(93,933)</u>
Net decrease in cash and cash equivalents	(389,594)
Cash and cash equivalents at beginning of year	<u>390,666</u>
Cash and cash equivalents at end of year	<u><u>\$1,071</u></u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES</b>	
Operating loss	(\$1,256,856)
<b>ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES:</b>	
Depreciation	72,951
Donated Management Fee	25,000
<b>Changes in Assets and Liabilities:</b>	
Increase in intergovernmental revenue	(143,959)
Decrease in accounts receivable	6,000
Decrease in prepaid rent	104,308
Increase in other prepaid expenses	(96,974)
Increase in accounts payable	6,376
Increase in accrued wages and benefits payable	66,078
Increase in intergovernmental payable	2,622
Total adjustments	<u>42,402</u>
Net cash used for operating activities	<u><u>(\$1,214,454)</u></u>

See accompanying notes to the basic financial statements.

## **Horizon Science Academy of Cleveland**

*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- Cleveland, (the Academy), is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to address the needs of students in grades nine through twelve in Cleveland. The Academy, which is part of the State's education program, is independent of any 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 initially approved for operation in August 1999 under a charter with Ohio Department of Education which expired on June 30, 2004. The Academy is currently under contract with Lucas County Educational Service Center (the Sponsor) until June 30, 2012.

The Academy operates under the direction of a self-appointed five-member Board of Trustees. The Board is responsible for carrying out the provisions of the contract, which includes, but are not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. In fiscal year 2012, the Academy employed 53 personnel for up to 470 students.

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

#### **A. Basis of Presentation**

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

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

#### **B. Measurement Focus and Basis of Accounting**

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

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

**B. Measurement Focus and Basis of Accounting (Continued)**

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

**C. Budgetary Process**

The contract between the Academy and its Sponsor prescribes an annual budget requirement in addition to preparing a 5-year forecast, which is to be updated on an annual basis. Chapter 5705.391(A) of the Ohio Revised Code also requires the Academy to prepare a 5-year forecast, update it annually, and submit it to the Superintendent of Public Instruction at the Ohio Department of Education.

**D. Cash**

To improve cash management, all cash received by the Academy is pooled in a central bank account. 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	5 to 10 years
Heavy Duty Office or Classroom Furniture	10 years
Computers and Other Electronic Equipment	3 to 5 years
Vehicles	3 to 10 years

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

**F. Intergovernmental Revenues**

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

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

**G. Operating Revenues and Expenses**

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

**H. Compensated Absences**

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

**I. Net Assets**

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

**3. DEPOSITS**

As of June 30, 2012, the Academy's bank balance of \$62,034 was covered by FDIC.

**Horizon Science Academy of Cleveland**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2012*

**3. DEPOSITS (Continued)**

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:

	<b>Capital Assets</b>			<b>Ending June 30, 2012</b>
	<b>Balance July 1, 2011</b>	<b>Additions</b>	<b>Deletions</b>	
Furniture and Equipment	\$184,843	\$91,283	(\$2,723)	\$273,403
School Vehicles	25,824	6,995	-	32,819
<b>Total Fixed Assets</b>	<b>210,667</b>	<b>98,278</b>	<b>(2,723)</b>	<b>306,222</b>
Less: Accumulated Depreciation	(95,576)	(72,951)	2,723	(165,804)
<b>Net Fixed Assets</b>	<b>\$115,091</b>	<b>\$25,327</b>	<b>\$-</b>	<b>\$140,418</b>

**5. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

**Plan Description** - The Academy participates in 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 Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

**Funding Policy** - 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 by the SERS' Retirement Board up to statutory maximum amounts of 10% for plan members and 14% for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2012, the allocation to pension and death benefits was 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 \$26,772, \$23,136 and \$44,954 respectively. The full amount has been contributed for fiscal years 2012, 2011 and 2010.

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

**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 can be obtained by writing to STRS Ohio, 275 E. Broad St, Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary multiplied by 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 DB Plan and the DC 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 payment or converted to a lifetime monthly annuity at age 50. Benefits are established by Ohio Revised Code Chapter 3307.

A DB or Combined Plan member with five or more years of 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 - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon the recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. For the fiscal year ended June 30, 2012, plan members were required to contribute 10 percent of their annual covered salary. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

The Academy's required contributions to STRS Ohio were \$254,910 for the fiscal year ended June 30, 2012, \$255,561 for the fiscal year ended June 30, 2011, and \$213,213 for the fiscal year ended June 30, 2010. The full amount has been contributed for fiscal years 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 of Ohio have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2012, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages.

**6. POSTEMPLOYMENT BENEFITS**

**A. State Teachers Retirement System**

Plan Description – The Academy participates in 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. Ohio law authorizes STRS to offer this plan. 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 can be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 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 Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to post-employment health care. The Academy's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were \$18,208, \$19,659, and \$16,401, respectively. The full amount has been contributed for fiscal years 2012, 2011, and 2010.

**B. School Employees Retirement System**

Plan Description – The Academy participates in two cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligation to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For fiscal year 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 fiscal year 2012, this amount was \$35,800. During fiscal year 2012, the Academy paid \$2,607 in surcharge.

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 \$7,955, \$23,136, and \$20,573, respectively. The full amount has been contributed for fiscal years 2012, 2011, and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 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 \$1,434, \$1,256, and \$3,759, respectively. The full amount has been contributed for fiscal years 2012, 2011, and 2010.

**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 \$3,000,000 single occurrence limit and \$1,000,000 annual aggregate and no deductible. There has been no reduction in coverage from the prior year. There have been no settlements exceeding coverage in any of the last three fiscal years.

**B. Workers Compensation**

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

**8. EMPLOYEE MEDICAL AND DENTAL BENEFITS**

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

**9. PURCHASED SERVICES**

Purchased service expenses during fiscal year 2012 were as follows:

<b>Type</b>	<b>Amount</b>
Professional Services	691,701
Rent and Property Services	688,713
Advertising and Communications	65,860
Food Services	117,758
Pupil Transportation	55,178
Staff Travel Expenses	<u>24,907</u>
<b>Total</b>	<b><u>1,644,117</u></b>

**Horizon Science Academy of Cleveland**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2012*

---

**10. OPERATING LEASES**

On December 1, 2005 the Academy entered into a lease agreement with Breeze Inc. for the facilities located at 6000 S. Marginal Rd. Cleveland, OH 44103. The lease calls for monthly rental payments of \$19,000 for the lease term, which ended June 30, 2009. In July 2008, the Academy entered into a lease amendment which extended the term of the lease to June 30, 2018 with a 4% increase in the rental payment. The Academy is responsible for all repairs and maintenance of the building and property. Also cost of construction of GYM shall be amortized over the life of the remaining lease term and added to monthly lease payments. Remaining balance of Rights under Land Installment Agreement dated December 1, 2005 shall be deducted from future rent payments over the life of the lease term. Breeze agreed to pay off Kinetic Leasing and Cleveland High School assigned to Breeze Inc. all of its right, title and interest in and to the leases with Kinetic Leasing and Cleveland Middle School, and the Modular Building. The difference between our offer, \$800,000, and payoff to Kinetic Leasing shall be deducted from future rent payments over the life of the lease term. All other construction related expenses incurred by the tenant shall be deducted from future rent payments over the life of the lease term. A total incurred prepaid expense was \$903,997 and monthly credit toward rent payment will be \$8,692. According to the current agreement, the monthly rent for the facilities is \$29,615.70. The Academy paid \$352,616 of the obligated amount of \$355,388 in fiscal year 2012, because of a credit amount of \$2,772, which was paid in fiscal year 2011.

**11. CAPITAL LEASES**

The Academy entered into one capitalized lease agreement for a copy machine/printer in the fiscal year ended June 30, 2009. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Principal payments for Fiscal Year 2012 totaled \$3,391. The following is a schedule of the future minimum lease payments required for the capital lease as of June 30, 2012.

	<b>Interest</b>	<b>Principal</b>	<b>Total</b>
<b>2013</b>	308	3,688	3,996
<b>2014</b>	34	1,631	1,665
<b>Total</b>	<b>\$342</b>	<b>\$5,319</b>	<b>\$5,661</b>

**12. 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 \$840,887.

**Horizon Science Academy of Cleveland**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2012

---

**12. CONTINGENCIES (continued)**

**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. According to the FTE review made for fiscal year 2012, the Academy was underpaid 7,495.

**13. PREPAID EXPENSES**

As a result of building sale to Breeze Inc. in 2005, the Academy recorded an accounts receivable for \$567,997. In July 2008, the balance was renegotiated as a part of new lease agreement due to construction of a gym and extra classrooms for the Academy on the premises. The balance as of June 30, 2012 was \$617,151.

**14. NOTES RECEIVABLE**

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

	Balance as of July 1, 2011	Payments Received	Balance as of June 30, 2012
Horizon Science Academy-Cincinnati	\$26,335	\$26,335	\$(-)
Total	\$26,335	\$26,335	\$(-)

**15. NOTES PAYABLE**

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

The Academy also entered into a promissory note with Horizon Science Academy – Cleveland Elementary in 2009, in the amount of \$100,000 at an interest rate of 6 percent. The note was used to pay for general operations of the Academy.

The payments made toward to this notes payable is as follows:

	Balance as of July 1, 2011	Additions	Paid	Balance as of June 30, 2012
HSA – Cleveland Middle	\$543	\$-	\$543	\$-
HSA – Cleveland Elementary	\$17,509	\$-	\$17,509	\$-
Total	\$18,052	\$-	\$18,052	\$-

**Horizon Science Academy of Cleveland**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2012*

---

**16. SPONSORSHIP AGREEMENT**

On July 1, 2004, Lucas County Educational Service Center assumed responsibility for sponsorship of the Academy. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. On May 2, 2007 the original contract was extended until June 30, 2012. According to the contract, the Academy pays 1% of its foundation revenues to the Sponsor. This rate will be increased to 1.5% as of July 1, 2009. In fiscal year 2012, the Academy's compensation to the Sponsor was \$46,685.

**17. MANAGEMENT COMPANY AGREEMENT**

The Academy contracted with Concepts Schools, Inc. to serve as the Academy's management company. The contract is renewed automatically every year in one year terms unless the Academy or the management company decides otherwise. According to the contract, the Academy transfers 12% of the funds received from the State. In fiscal year 2012, the Academy paid fees of \$347,456 to Concept Schools for management services. \$25,000 was forgiven by Concept Schools, and reflected in the statement of revenues, expenses and change in net assets as donated management fee. The Academy also has \$2,093 recorded under accounts payable due to an underpayment of management fees.

**18. RELATED PARTIES**

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

The Academy issued and received short term notes from other Horizon Science Academy Schools which are managed by the same management company, Concept Schools.

Horizon Science Academy of Cleveland  
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
<b>United States Department of Agriculture</b>				
<i>Passed through Ohio Department of Education</i>				
<i>Child Nutrition Cluster:</i>				
National School Lunch Program	3L60	10.555	\$ 115,635	\$ 115,635
School Breakfast Program	3L70	10.553	21,591	21,591
Total Child Nutrition Cluster			137,226	137,226
<b>Total United States Department of Agriculture</b>			137,226	137,226
<b>United States Department of Education</b>				
<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	311,271	322,618
Total Title I, Part A Cluster			311,271	322,618
<i>Special Education Cluster:</i>				
Special Education - Grants to States	3M20	84.027	80,468	80,468
Total Special Education Cluster			80,468	80,468
<i>Education Technology State Grants Cluster</i>				
Education Technology State Grants	3S20	84.318	991	541
Total Education Technology State Grants Cluster			991	541
<i>State Fiscal Stabilization Fund Cluster</i>				
State Fiscal Stabilization Fund (SFSF) - Education Grants, ARRA	GRF	84.394	3,409	-
Total State Fiscal Stabilization Fund Cluster			3,409	-
Improving Teacher Quality State Grants	3Y60	84.367	6,425	5,083
Education Jobs Fund	3ET0	84.410	137,977	181,815
State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, ARRA	3FD0	84.395	20,510	65,749
<b>Total United States Department of Education</b>			561,051	656,274
<b>Total Federal Financial Assistance</b>			\$ 698,277	\$ 793,500

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

**Horizon Science Academy of Cleveland**  
*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.

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

[www.bhscpas.com](http://www.bhscpas.com)

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

We have audited the financial statements of the business-type activities of Horizon Science Academy of Cleveland, 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.

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

[www.bhscpas.com](http://www.bhscpas.com)

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

### Compliance

We have audited the compliance of Horizon Science Academy of Cleveland, Cuyahoga County, Ohio (the Academy) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of Horizon Science Academy of Cleveland'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 of Cleveland 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 of Cleveland  
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 - 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 of Cleveland  
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**

<b>Finding Number</b>	2012-01
<b>CFDA Title and Number</b>	Title I Cluster: Title I - CFDA #84.010  Education Jobs Fund – CFDA #84.410
<b>Federal Award Year</b>	2012
<b>Federal Agency</b>	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 25, 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 of Cleveland  
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 OF CLEVELAND

CUYAHOGA COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
APRIL 9, 2013