HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2004

Mary Taylor, CPA
Auditor of State

HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY

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Mary Taylor, CPA
Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Trustees:

We have audited the accompanying basic financial statements of the Horizon Science Academy of Cleveland, Cuyahoga County, Ohio, (the Academy), as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Horizon Science Academy of Cleveland, Cuyahoga County, Ohio, as of June 30, 2004, and the changes in financial position and its cash flows for the year ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note III, during the year ended June 30, 2004, the Academy implemented a new financial reporting model, as required by provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus", and Statement No. 38, "Certain Financial State Note Disclosures".

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2007, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 30, 2007

HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY
Management's Discussion and Analysis
For the Year Ended June 30, 2004
Unaudited

The discussion and analysis of Horizon Science Academy of Cleveland (HSAC) provides an overall review of the School's financial activities for the fiscal year ended June 30, 2004. The intent of the discussion and analysis is to look at HSAC's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of HSAC's financial performance.

Financial Highlights

Key financial highlights affecting 2004 are as follows:

Assets increased by $176,010 primarily due to $319,026 increase in cash and cash equivalents.

Liabilities decreased $492,041 mainly due to lower accounts payable of $193,401 and a reduction in notes payable, loans payable, and capital leases of $291,602.

In total, Net Assets increased $668,051.

Total Operating Revenues totaled $3,013,453.

Using this Financial Report

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

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

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

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets answer the question, "How did we do financially during 2004?". These statements include all assets and liabilities using the accrual basis of accounting. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received.

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

School-wide financial analysis
Table 1 provides a summary of HSAC's net assets as of June 30, 2004 and 2003.

Table 1
NET ASSETS

Assets:	June 30, 2004	June 30, 2003
Current Assets:		
Cash and Cash equivalents	$ 358,499	$ 39,473
Receivables	-	31,599
Total Current Assets	358,499	71,072
Non-Current Assets:		
Capital Assets (Net of Accumulated Depreciation)	4,078,106	4,189,523
Total Assets	4,436,605	4,260,595
Liabilities and Equity:		
Current Liabilities:		
Accounts Payable	24,530	217,931
Intergovernmental Payable	983	57,849
Accrued Payroll	125,209	74,900
Interest Payable	21,410	21,891
Total Current Liabilities	172,132	372,571
Long Term Liabilities		
Loan Payable	-	230,131
Capital Lease Payable	4,919	8,609
Mortgage Note Payable	2,569,189	2,626,970
Total Long Term Liabilities	2,574,108	2,865,710
Total Liabilities	2,746,240	3,238,281
Net Assets		
Investment in Capital Assets, net of related debt	1,503,998	1,323,813
Unrestricted	186,367	(301,499)
Total Net Assets	$ 1,690,365	1,022,314

In the case of HSAC, capital assets (net of accumulated depreciation) comprise 92% of total assets. As a result, the depreciation expense has a significant impact on the total net assets.

Total net assets totaled $1,690,365 and increased $668,051, due primarily from increased enrollment.

Table 2 shows the changes in net assets for the years ended June 30, 2004 and 2003.

Table 2
Revenues, Expenses and Changes in Net Assets

	FOR THE YEAR ENDED	
	June 30, 2004	June 30, 2003
Operating Revenues:		
Foundation Payments	$ 2,906,396	$ 2,426,281
Other Operating Revenue	107,057	134,620
Total Operating Revenue	3,013,453	2,560,901
Operating Expenses:		
Salaries	1,427,843	1,166,288
Fringe Benefits	294,420	235,028
Purchased Services	273,770	287,702
Materials and Supplies	236,935	117,446
Depreciation	123,021	119,263
Interest Expense	269,808	274,522
Capital Outlay	1,644	66,294
Other Operating Expenses	112,119	62,393
Total Operating Expenses	2,739,560	2,328,936
Operating Income	273,893	231,965
Non-Operating Revenues		
Federal and State Grants	243,797	419,780
Private Grants and Contributions	30,361	-
Rental Income	120,000	120,000
Total Non-Operating Revenues	394,158	539,780
Net Assets		
Net Increase in Net Assets	668,051	771,745
Total Net Assets at Beginning of Year	1,022,314	250,569
Total Net Assets at End of Year	**$ 1,690,365**	**$ 1,022,314**

Foundation payments accounted for 96% of the Operating Revenues. Community school foundation payments are received from the Ohio Department of Education (ODE) based on various student enrollment data submitted to ODE throughout the school year.

Operating expenses for 2004 totaled $2,739,560 which represents an increase of $410,624 over the prior year. The majority of the increase is in salaries primarily as a result of (1) adding new teaching positions and (2) salary increases. This is in recognition of both the quality and the importance of the work that teachers are performing, and to support HSAC's top priority of retaining high-quality teachers.

Table 3 reflects capital assets, net of accumulated depreciation, as of June 30, 2004 and 2003.

Table 3
Capital Assets Net of Accumulated Depreciation

	June 30, 2004	June 30, 2003
Building and Improvements	$ 4,026,062	$ 4,139,184
Furniture and Equipment	30,589	25,372
Capitalized Leases	19,601	22,829
School Buses	1,854	2,138
Total	**4,078,106**	**4,189,523**

HSAC's investment in capital assets for its activities as of June 30, 2004 amount to $4,078,106.

Contacting HSAC's Financial Management

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

HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY

Statement of Net Assets
As of June 30, 2004

Assets:		
Current Assets:		
Cash and Cash equivalents	$	358,499
Non-Current Assets:		
Capital Assets (Net of Accumulated Depreciation)		4,078,106
Total Assets		4,436,605
Liabilities and Equity:		
Current Liabilities:		
Accounts Payable		24,530
Intergovernmental Payable		983
Accrued Payroll		125,209
Interest Payable		21,410
Total Current Liabilities		172,132
Long Term Liabilities		
Capital Lease Payable		4,919
Mortgage Note Payable		2,569,189
Total Long Term Liabilities		2,574,108
Total Liabilities		2,746,240
Net Assets		
Investment in Capital Assets, net of related debt		1,503,998
Unrestricted		186,367
Total Net Assets	$	1,690,365

The accompanying notes to the financial statements are an integral part of this statement.

HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY

Statement of Revenues, Expenses and Changes In Net Assets
For the Fiscal Year Ended June 30, 2004

Operating Revenues:		
Foundation Payments	$	2,906,396
Other Operating Revenue		107,057
Total Operating Revenue		3,013,453
Operating Expenses:		
Salaries		1,427,843
Fringe Benefits		294,420
Purchased Services		273,770
Materials and Supplies		236,935
Depreciation		123,021
Interest Expense		269,808
Capital Outlay		1,644
Other Operating Expenses		112,119
Total Operating Expenses		2,739,560
Operating Income		273,893
Non-Operating Revenues		
Federal and State Grants		243,797
Private Grants and Contributions		30,361
Rental Income		120,000
Total Non-Operating Revenues		394,158
Net Assets		
Net Increase in Net Assets		668,051
Total Net Assets at Beginning of Year		1,022,314
Total Net Assets at End of Year	$	1,690,365

The accompanying notes to the financial statements are an integral part of this statement.

HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY

Statement of Cash Flows
For the Year Ended June 30, 2004

Cash Flows from Operating Activities:		
Cash Received from State of Ohio	$	2,906,396
Cash Payments to Suppliers for Goods and Services		(1,440,161)
Cash Payments to Employees for Services		(1,345,218)
Cash Received from Others		107,057
Net Cash Used for Operating Activities		228,074
Cash Flows from Noncapital Financing Activities:		
Non-Operating Grants and Contributions Received		243,797
Payments of Lines of Credit		(45,952)
Repayment to Officers and Directors		(65,138)
Repayment on Other Loans		(88,680)
Net Cash Provided by Noncapital Financing Activities		44,027
Cash Flows from Capital and Related Financing Activities:		
Payments for Capital Acquisitions		(11,604)
Payments of Capitalized Leases		(3,690)
Payment of Mortgage		(57,781)
Net Cash Used by Capital and Related Financing Activities		(73,075)
Cash Flows from Investing Activities:		
Rental Income		120,000
Net Cash Provided by Investing Activities		120,000
Net Increase in Cash and Cash Equivalents		319,026
Cash and Cash Equivalents at the Beginning of the Year		39,473
Cash and Cash Equivalents at the End of the Year	$	358,499

The accompanying notes to the financial statements are an integral part of this statement.

HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY

Statement of Cash Flows
For the Year Ended June 30, 2004
(Continued)

Reconciliation of Operating Income to Net Cash Used for Operating Activities:		
Operating Income	$	273,893
Adjustments to Reconcile Operating Income to Net Cash Used for Operating Activities:		
Depreciation		123,021
Changes in Assets and Liabilities:		
Decrease in Accounts Receivable		31,599
Decrease in Accounts Payable		(193,401)
Increase in Wages and Benefits		50,309
Decrease in Accrued Expenses		(481)
Decrease in Intergovernmental Payable		(56,866)
Total Adjustments		(45,819)
Net Cash Used for Operating Activities	$	228,074

The accompanying notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

I. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

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

A proposal was initially forwarded to the Ohio Department of Education by HSAC during June 1999 to open a community school in the fall of 1999. The Ohio Department of Education approved the proposal and entered into a five-year contract with HSAC for the commencement of operations at the beginning of the 1999-2000 school year. Effective March 11, 2004, sponsorship was reassigned to the Lucas County Educational Service Center for a period of five years.

The School operates under a five-member Board of Trustees. The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board of Trustees controls the HSAC's instructional facility staffed by 1 uncertified and thirty certificated full time teaching personnel who provide services to 488 students.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Basis of Presentation

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

Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation and amortization) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has decided that periodic determination of revenues earned, expenses incurred, and/or net assets is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

2. 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 are included on the Statement of Net Assets. Operating statements present increases (e.g. revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. HSAC's financial statements are prepared using the accrual basis of accounting. Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded when the exchange takes place. Revenues resulting from non-exchange transactions, in which HSAC receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the year when use is first permitted; matching requirements, in which HSAC must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to HSAC on reimbursement basis. Expenses are recognized at the time they are incurred.

3. Cash and Cash Equivalents

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

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. Capital Assets and Depreciation

Capital assets are capitalized at cost and updated for additions and retirements during the year. HSAC maintains a capitalization threshold of $500. HSAC does not possess any infrastructure.

Improvements are also capitalized. The cost 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. All reported capital assets are depreciated.

Depreciation of buildings, building improvements, computers and equipment, furniture, and classroom and marketing materials are computed using the straight-line method over their estimated useful lives. Improvements to fixed assets are depreciated over the remaining useful lives of the related fixed assets.

Capital Asset Classification	Years
Building & leasehold improvements	39
Classroom Materials and Furniture	10
Computer and equipment	5
School Buses	10

5. Intergovernmental Revenues

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

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

Eligibility 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 HSAC must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to HSAC on a reimbursement basis.

6. Compensated Absences

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

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

7. Private Donations

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

8. Net Assets

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

9. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principals 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.

III. CHANGES IN ACCOUNTING PRINCIPLES

For 2004, HSAC has implemented GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments," GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments: Omnibus," GASB Statement No. 38, "Certain Financial Statement Note Disclosures," and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements."

GASB Statement No. 34 establishes new financial reporting requirements for state and local governments throughout the United States for the purpose of enhancing the understandability and usefulness of financial reports. A Statement of Net Assets replaces the Balance Sheet and reports assets, liabilities, and the difference between them as net assets, not equity. A Statement of Revenues, Expense, and Changes in Net Assets replaces the Statement of Revenues, Expenses, and Changes in Retained Earnings. GASB Statement No. 34 also requires that the Statement of Cash Flows be prepared using the direct method. Under the direct method, cash flows from operating activities are presented by major categories.

III. CHANGES IN ACCOUNTING PRINCIPLES (Continued)

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required contents of the MD&A. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

The impact of implementing GASB Statements Nos. 34, 37, and 38 and GASB Interpretation No. 6 resulted in changes in the presentation of the financial statements and providing additional information in the notes to the basic financial statements.

IV. BUDGETING

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does prescribe an annual budget requirement in addition to preparing a 5-year forecast, which is to be updated on an annual basis.

V. DEPOSITS AND INVESTMENTS

At the end of fiscal 2004, the carrying amount of HSAC deposits was $358,499 and the bank balance was $472,752. Of the bank balance, $100,000 was covered by federal depository insurance and $372,752 was uninsured and uncollateralized.

VI. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004, was as follows:

	Balance 06/30/03	Additions	Deductions	Balance 06/30/04
Building and Improvements	$4,411,993	$0	$0	$4,411,993
Furniture and Equipment	62,005	11,604	0	73,609
School Buses	2,848	0	0	2,848
Totals at Historical Cost	4,476,846	11,604	0	4,488,450
Less accumulated depreciation:				
Building and Improvements	(272,809)	(113,122)	0	(385,931)
Furniture and Equipment	(13,804)	(9,615)	0	(23,419)
School Buses	(710)	(284)	0	(994)
Total Depreciation	(287,323)	(123,021)	0	(410,344)
Net Capital Assets	$4,189,523	$(111,417)	$0	$4,078,106

VII. PURCHASED SERVICES

Purchased Services include the following:

Insurance	$ 19,792
Professional Services	49,545
Advertising	23,512
Equipment Lease & Rental	15,352
Utilities and Telephone	70,103
Other	95,466
Total Purchased Services	$273,770

VIII. RISK MANAGEMENT

1. Property and Liability

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2004, the School contracted with AJ Amer Agency Inc. for all of its insurance.

The building, furniture and equipment have a $4,860,000 limit, the liability insurance has a $1,000,000 single occurrence limit and $2,000,000 annual aggregate and no deductible, and the professional liability has a $1,000,000 single occurrence limit and $3,000,000 aggregate and a $1,000 deductible. Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in insurance coverage from the prior year.

2. Workers' Compensation

HSAC makes premium payments to the Ohio Workers' Compensation System (WC) for employee injury coverage. As of June 30, 2004, there have been no claims filed by employees with WC for the year ending June 30, 2004.

3. Employee Medical, and Dental

HSAC contracted with Medical Mutual through COSE to provide employee medical/surgical benefits. During the 2004 fiscal year, the costs to HSAC for medical and dental insurance benefits, net of employee contributions, were $79,119.

IX. PENSION PLANS

1. School Employees Retirement System

HSCA contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer defined benefit pension plan. SERS provides basic retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 10% of their annual covered salary and HSAC is required to contribute at an actuarially determined rate. The current school district rate is 14% of annual covered payroll. A portion of the HSAC's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS Retirement Board. HSAC's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were $8,080, $5,997, and $5,321, respectively; 93.2% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. $983 representing the unpaid contribution for fiscal year 2004 is recorded as a liability under Intergovernmental Payable.

2. State Teachers Retirement System

HSAC contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

IX. PENSION PLANS (Continued)

2. State Teachers Retirement System (Continued)

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 member contributions and earned interest matched by STRS Ohio funds times 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 Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries. HSAC was required to contribute 14 percent, 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions.

HSAC's required contributions to pension obligations for the fiscal years ended June 30, 2004, 2003, and 2002 were $163,311, $138,645, and $119,876 respectively; 100 percent has been contributed for fiscal years 2004, 2003, and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were $9,799 made by the Academy and $12,094 made by the plan members.

X. POST-EMPLOYMENT BENEFITS

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

For STRS, all benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate; currently 14 percent of covered payroll. As of June 30, 2004, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund, from which payments for health care benefits are paid. For HSAC, this amount equaled $12,576 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Fund was $3.1 billion at June 30, 2004. For June 30, 2004, net health care costs paid by STRS were $268,739,000 and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, for disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for the basic benefits, the remainder of the employer’s 14 percent contribution is allocated to providing health care benefits. For this fiscal year, employer contributions used to fund health care benefits were 4.91 percent covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at $25,400. For fiscal year 2004, the amount to fund health care benefits including surcharge equaled $5,573.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level of the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004 were $223,443,805 and the target level was $335.2 million. At June 30, 2004 SERS had net assets available for health care benefits of $300.8 million. SERS had approximately 62,000 participants currently receiving health care benefits.

XI. BUILDING PURCHASE

Horizon Science Academy of Cleveland (HSAC) entered into a capital lease on November 30, 2000 to purchase a parcel of land containing two buildings. One building is 40,880 square feet and is used for School operations. The other building is 10,000 square feet and is presently occupied by Ohio Motorists Association (OMA). The total purchase price was $2,800,000 at a 10% interest rate payable monthly over a period of twenty years. The first payment was due January 1, 2001. Monthly payments are $26,490. The OMA currently pays $10,000 a month rent for the building where they are located. HESI pays the difference between the $26,490 and the $10,000 rent paid by the OMA, which is $16,490. If the OMA fails to pay its rent, HSAC is still obligated to pay the entire $26,490. As of the date of this report, the School is current on all lease payments.

The current owner of the building may at any time after September 1, 2005 issue a Final Closing Notice, advising HSAC of a date not earlier than ninety days after the delivery date of the Final Closing Notice on which the current owner is prepared to transfer title to the premises to HSAC in return for payment of the full balance for the purchase price.

XII. CONTINGENCIES

1. Grants

HSAC received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of HSAC. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of HSAC at June 30, 2004.

2. Litigation

A suit was filed in the US District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The case is still pending. The effect of this suit, if any, on the Academy is not presently determinable.

XIII. SUBSEQUENT EVENTS

1. Sale of Building

On December 1, 2005 an agreement was signed with Breeze, Inc. to purchase HSAC's interest in the land contract from the current owner. The purchase price of $2,700,000.00 includes $2,503,836.66 that was paid to the current owner as payment of the balance of the purchase price. The balance of the $2,700,000 purchase price from Breeze of $196,163 is due and payable to HSAC by December 30, 2006.

2. Lease of Premises

A lease was entered into on December 1, 2005 to lease back the premises from Breeze, Inc. The initial term will end June 30, 2009 with one five year option to renew. The monthly lease payments are $19,000.00 per month plus insurance and all maintenance.

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

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

To the Board of Directors:

We have audited the financial statements of the Horizon Science Academy of Cleveland, Cuyahoga County, Ohio, (the Academy) as of and for the year ended June 30, 2004 which comprise the Academy's basic financial statements and have issued our report thereon, dated January 30, 2007, wherein we noted the Academy adopted Governmental Accounting Standards Board (GASB) Statements No. 34, 37, and 38. 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 to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Academy's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2004-003 through 2004-005.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable conditions 2004-003 and 2004-004 listed above to be material weaknesses. In a separate letter to the Academy's management dated January 30, 2007, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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 instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2004-001 and 2004-002. In a separate letter to the Academy's management dated January 30, 2007, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management and the Board of Directors. It is not intended for anyone other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 30, 2007

SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2004

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

FINDING NUMBER	**2004-001**

Finding for Recovery Repaid Under Audit

During fiscal year 2004, Mustafa Icel, Teacher, was overpaid based on his employment contract. During fiscal year 2004 Mustafa Icel was overpaid $10.00 per pay period for twenty-four pay periods over and above the amount of his approved compensation as recorded on this employment contract. This excessive compensation totaled $240.

In accordance with the foregoing facts, and pursuant to Ohio Revised Code 117.28 a Finding for Recovery for public monies illegally expended is hereby issued against Mustafa Icel, teacher and Ryan Uysaler, Treasurer, jointly and severally in the amount of $240 and in favor of the Horizon Science Academy.

This Finding for Recovery was paid back under audit.

Official's Response:

We did not receive a response from officials to this finding.

FINDING NUMBER	**2004-002**

Fiscal Officer Designation and Approved Training

Ohio Revised Code Section 3314.011 provides that prior to assuming the duties of fiscal officer, the fiscal officer designee shall be licensed as prescribed by Section 3301.074 of the Revised Code or shall complete not less than sixteen hours of continuing education classes in the area of school accounting as approved by the sponsor of the community school. Any fiscal officer who is not licensed under this section shall complete an additional twenty-four hours of continuing education within one year after assuming the duties of fiscal officer of the school.

In addition, Article 2 Section BB of the contract between the Sponsor and the Academy provides, in part, proof of the required training shall be in the custody of the Sponsor and the Academy's Governing Authority at all times.

A request was made of the Academy and the Sponsor to provide documentation attesting to the approval of the continuing education course work of the Treasurer and proof of attendance. No such documentation was received.

Without the proper approval of the Sponsor, course work could be completed which is not recognized by the Sponsor.

We recommend the Academy review the provisions of Ohio Revised Code Sections 3314.011 and 3301.074, and the Sponsor agreement and take the necessary steps to ensure that the fiscal officer has completed the required continuing education training which is approved by the Sponsor.

Official's Response:

We did not receive a response from officials to this finding.

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

FINDING NUMBER	**2004-003**

Developing and Implementing an Effective Monitoring Control System

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

Some effective monitoring controls include:

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

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

We recommend that management prepare complete monthly financial statements and submit them to the Board at each regularly scheduled meeting. The Board should then review these financial statements and when satisfied as to their accuracy approve them through the minute records. In addition, management should ensure that any reports required by the grantor agencies, per the terms of grant agreements, are completed accurately and filed with the respective grantor agencies in a timely manner. Management should also ensure that proper segregation of duties exists.

Official's Response:

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

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

FINDING NUMBER	**2004-004**

Cash Collection Process

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

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

Lack of documentation of the receipt cycle could lead to misappropriation of collections, bank errors which cannot be substantiated, errors occurring between individuals who collect and remit funds and the individual depositing funds, and a lack of consistency in applying internal controls over the receipting cycle.

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

Official’s Response:

The Board asks that this Finding be removed from the report. The School does in fact have a method of accounting for all receipts, including electronic funds transfers received from the State. The School believes that it has an adequate system for documenting all funds received and that the additional steps recommended by the Auditor’s office would create duplicative paperwork. Also, steps have been taken to develop a back up procedure should something happen to the current School treasurer.

Auditor of State’s Conclusion:

At the Academy, all receipts are not documented and processed in the same manner. In meetings with the Academy’s Treasurer it was apparent that only the Treasurer has a direct knowledge of the complete receipting procedures. Recording all receipts in one place would strengthen the internal controls and ensure the continued operation of this vital recordkeeping system if there was a change in the Treasurer position.

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2004
(CONTINUED)**

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

FINDING NUMBER	2004-005

Board Approval of Contract

Management is responsible for implementing and maintaining a system of controls and procedures over payroll expenditures. Also, management is responsible for developing and maintaining complete and accurate financial records, including contract approval by the Board.

The Board approved an employee's contract to commence August 1, 2003; however the employee performed work during pay periods ending July 15, 2003 and July 31, 2003, without a signed contract or Board approval.

We recommend that the Academy develop and implement controls and procedures over payroll expenditures which include review, and approval procedures, to assist in verifying that all necessary documentation, such as, signed and approved contracts, are on file for each expenditure made and to ensure Board approval is obtained for the compensation. The Treasurer should compare the contracted amount and amount approved by the Board to the amounts paid to each employee. Any differences should be investigated, explained in writing, and documented on the action taken and the solution with all appropriate documentation in the file.

Official's Response:

The School appreciates the Auditor's Office's assistance in reviewing current school procedures and internal controls. The employee at issue was hired between board meetings and, due to an administrative error, the contract and Board resolution do not reflect the employee's actual start date two weeks earlier. The School Board will continue to approve all employee contracts and will pay closer attention to the periods of employment.

HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2004

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Plan Taken; or Finding No Longer Valid; **Explain:**
2003-001	Uniform School Accounting System	Yes	Corrected during fiscal year 2004
2003-002	Development and Implementing an Effective Monitoring Control System	No	Reissued as 2004-003
2003-003	Development and Implementation of Purchasing Cycle Controls	Yes	Corrected during fiscal year 2004
2003-004	Fixed Assets	Yes	Corrected during fiscal year 2004

Mary Taylor, CPA
Auditor of State

HORIZON SCIENCE ACADEMY OF CLEVELAND

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 27, 2007

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