



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

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2010**



**Dave Yost • Auditor of State**



**Horizon Science Academy Cleveland Middle School**

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*For the Fiscal Year Ended June 30, 2010*

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Horizon Science Academy Cleveland Middle School  
Cuyahoga County  
6100 South Marginal Road  
Cleveland, Ohio 44103

To the Board of Directors:

We have audited the accompanying basic financial statements of Horizon Science Academy Cleveland Middle School, Cuyahoga County, Ohio (the School), as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions 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 Horizon Science Academy Cleveland Middle School, Cuyahoga County, Ohio, as of June 30, 2010, and the changes 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 March 21, 2011, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

**Dave Yost**  
Auditor of State

March 21, 2011

**Horizon Science Academy Cleveland Middle School**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2010  
(Unaudited)*

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The discussion and analysis of Horizon Science Academy Cleveland Middle School's (the School) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2010. Readers should also review the financial statements and notes to enhance their understanding of the School's financial performance.

**Financial Highlights**

Key financial highlights for fiscal year 2010 are as follows:

- Total assets were \$278,394.
- Total liabilities were \$67,614.
- Total net assets decreased \$75,260.

**Using this Financial Report**

This report consists of three parts: Management's Discussion and Analysis, the basic financial statements, and notes to those statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and change in net assets, and a statement of cash flows.

**Reporting the School as a Whole**

One of the most important questions asked about the School is, "As a whole, what is the School'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 School's financial statements, report information on the School 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 School's net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the School's financial health or financial position. Over time, increases or decreases in the School'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 School's operating results. However, the School'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 School, to assess the overall health of the School.

The statement of net assets and the statement of revenues, expenses and change in net assets report the activities of the School, which encompass all the School'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 Cleveland Middle School**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2010*  
*(Unaudited)*

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Table 1 provides a comparison of net assets as of June 30, 2010 with net assets as of June 30, 2009.

Table 1

	Net Assets	
	June 30, 2010	June 30, 2009
<u>Assets</u>		
Current Assets	\$211,224	\$225,477
Capital Assets, Net	67,170	117,141
Total Assets	278,394	342,618
<u>Liabilities</u>		
Current Liabilities	67,614	53,836
Non-Current Liabilities	0	2,742
Total Liabilities	67,614	56,578
<u>Net Assets</u>		
Invested in Capital Assets	67,170	111,082
Unrestricted	143,610	174,958
Total Net Assets	\$210,780	\$286,040

Total assets decreased \$64,224. Capital assets decreased by \$49,971, net of accumulated depreciation, as a result of depreciation and donation of capital assets to Horizon Science Academy Youngstown. Prepaid expenses for rent decreased by \$55,619. Total liabilities increased by \$11,036. This change is due mainly to an increase of \$27,000 in payroll liabilities.



**Horizon Science Academy Cleveland Middle School**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2010*  
*(Unaudited)*

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Table 2 shows the changes in net assets for the fiscal years 2010 and 2009.

Table 2

Revenues, Expenses, and Changes in Net Assets		
	2010	2009
<u>Operating Revenue/Expense</u>		
Revenue		
Foundation Payments	\$939,989	\$1,078,704
Food Services	2,069	5,306
Classroom Fees	16,753	12,677
Extracurricular Activities	1,188	3,166
Other Local Revenue	1,308	9,001
Total Operating Revenues	961,307	1,108,854
Expense		
Salaries	591,848	607,905
Fringe Benefits	169,464	169,000
Purchased Services	655,776	459,500
Materials and Supplies	66,169	96,643
Depreciation Expense	28,271	34,726
Miscellaneous Expense	59,397	42,567
Total Operating Expenses	1,570,925	1,410,341
Net Operating Loss	(609,618)	(301,487)
<u>Non-Operating Revenue/Expense</u>		
Restricted Grants-in-Aid - Federal	425,087	214,676
Restricted Grants-in-Aid - State	5,883	5,700
Prior Year Foundation Settlement	35	0
Rental Income	134,160	0
Interest Expense	(297)	(516)
Loss on Donation of Capital Assets	(21,700)	0
Repayment of Prior Year		
Foundation Settlements	(8,810)	0
Total Non-Operating Revenue/Expense	534,358	219,860
<u>Net Assets</u>		
Change in Net Assets	(75,260)	(81,627)
Net Assets at Beginning of Year	286,040	367,667
Net Assets at End of Year	\$210,780	\$286,040

Foundation support revenue decreased \$138,715, primarily as a result of a decrease in students. Federal grant revenue increased \$210,411, primarily as a result of ARRA grants. Total operating expenses increased \$160,584 also as a result of increased purchased services.

**Horizon Science Academy Cleveland Middle School**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2010*  
*(Unaudited)*

Foundation support is the primary support of the School, comprising 98 percent of operating revenue and 62 percent of total revenues. The School also received a significant portion of federal grants and in-kind contributions, which together represent 28 percent total revenue. Salaries and benefits comprise the largest portion of operating expenses, representing 48 percent of total operating expenses. Purchased services also represent a large portion of operating expenses, or 42 percent. Net assets decreased \$75,260 resulting from expenses in excess of revenues.

**Capital Assets**

At the end of fiscal year 2010 the School had \$196,775, invested in furniture and equipment, and school vehicles (\$67,170 net of accumulated depreciation). Table 3 shows fiscal year 2010:

Table 3

	Capital Assets			
	Beginning Balance July 1, 2009	Additions	Deletions	Ending Balance June 30, 2010
	Equipment - Instructional	\$150,924	\$0	\$30,334
Equipment - Office	60,180	0	0	60,180
School Vehicle	16,005	0	0	16,005
<b>Total Capital Assets</b>	<b>227,109</b>	<b>0</b>	<b>30,334</b>	<b>196,775</b>
Less: Accumulated Depreciation	(109,968)	(28,271)	(8,634)	(129,605)
<b>Net Capital Assets</b>	<b>\$117,141</b>	<b>(\$28,271)</b>	<b>\$21,700</b>	<b>\$67,170</b>

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

**Contacting the School's Financial Management**

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the School's finances. Questions concerning any of the information in this report or requests for additional information should be directed to Aman Gurdov, Treasurer, Horizon Science Academy Cleveland Middle School, 6100 South Marginal Road, Cleveland, Ohio 44103.

**Horizon Science Academy Cleveland Middle School**

*Statement of Net Assets*

*June 30, 2010*

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**ASSETS:**

**Current Assets:**

Cash and Cash Equivalents	\$73,469
Accounts Receivable	27,040
Intergovernmental Receivable	48,548
Prepaid Expenses	62,167

Total Current Assets 211,224

**Noncurrent Assets:**

Capital Assets (Net of Accumulated Depreciation)	67,170
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Total Assets 278,394

**LIABILITIES:**

**Current Liabilities:**

Accounts Payable	8,370
Accrued Wages and Benefits Payable	48,029
Payroll Liabilities	8,473
Capital Lease - Due Within One Year	2,742

Total Current Liabilities 67,614

Total Liabilities 67,614

**NET ASSETS:**

Invested in Capital Assets	67,170
Unrestricted	143,610

Total Net Assets \$210,780

See accompanying notes to the basic financial statements

**Horizon Science Academy Cleveland Middle School**  
*Statement of Revenues, Expenses and Change in Net Assets*  
*For the Fiscal Year Ended June 30, 2010*

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<b>OPERATING REVENUES:</b>	
Foundation Payments	\$939,989
Food Services	2,069
Classroom Fees	16,753
Extracurricular Activities	1,188
Other Revenue	1,308
	961,307
Total Operating Revenues	961,307
<b>OPERATING EXPENSES:</b>	
Salaries	591,848
Fringe Benefits	169,464
Purchased Services	655,776
Materials and Supplies	66,169
Depreciation	28,271
Miscellaneous	59,397
	1,570,925
Total Operating Expenses	1,570,925
Operating Income/(Loss)	(609,618)
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Interest Expense	(297)
Loss on Donation of Capital Assets	(21,700)
Repayment of Prior Year Foundation Settlement	(8,810)
Restricted Grants in Aid - Federal	425,087
Restricted Grants in Aid - State	5,883
Prior Year Foundation Settlement	35
Rental Income	134,160
	534,358
Total Non-Operating Cash Receipts	534,358
Change in Net Assets	(75,260)
Net Assets, Beginning of Year	286,040
	286,040
<b>Net Assets, End of Year</b>	<b>\$210,780</b>

See accompanying notes to the basic financial statements

**Horizon Science Academy Cleveland Middle School**

*Statement of Cash Flows*

*For the Fiscal Year Ended June 30, 2010*

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**INCREASE IN CASH AND CASH EQUIVALENTS**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Cash Received from State of Ohio	\$944,674
Cash Received from Other Operating Revenues	21,318
Cash Payments to Suppliers for Goods and Services	(660,303)
Cash Payments to Employees for Services and Benefits	(752,982)
Other Cash Payments	(59,411)
	<hr/>
Net Cash Used for Operating Activities	(506,704)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:**

Federal Grants Received	376,539
State Grants Received	5,883
	<hr/>
Net Cash Provided by Noncapital Financing Activities	382,422

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:**

Principal Paid on Capital Lease	(3,317)
Interest Paid on Capital Lease	(283)
	<hr/>
Net Cash Used for Capital and Related Financing Activities	(3,600)

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Rental Income	134,160
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Net Cash Used for Investing Activities	134,160
	<hr/>
Net Increase in Cash and Cash Equivalents	6,278
Cash and Cash Equivalents at Beginning of Year	67,191
	<hr/>
Cash and Cash Equivalents at End of Year	\$73,469

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

Operating Loss	(\$609,618)
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**ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES**

Depreciation	28,271
Interest on Benefit Payment Fees	(14)
Repayment of Prior Year Foundation Settlement	(8,810)
Prior Year Foundation Settlement	35

**Change in Assets and Liabilities:**

Decrease in Accounts Receivable	13,460
Increase in Accounts Payable	6,023
Decrease in Accrued Wages and Benefits Payable	(18,670)
Decrease in Prepaid Expenses	55,619
Increase in Payroll Liabilities	27,000
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Total Adjustments	102,914
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Net Cash Used for Operating Activities	(506,704)
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See accompanying notes to the basic financial statements

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**Horizon Science Academy Cleveland Middle School**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2010*

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**1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY**

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

The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School. The School 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 School's tax-exempt status.

The School was approved for operation under contract with the Lucas County Educational Service Center (the Sponsor) for a period of five years commencing November 19, 2004.

The School operates under the direction of a self-appointed five-member Board of Trustees. The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board of Trustees controls the School's facility, which is currently staffed by 19 full and part time personnel who provide services to up to 150 students during the year.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Basis of Presentation**

The School'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 School 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 School are included on the Statement of Net Assets.

**Horizon Science Academy Cleveland Middle School**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2010*

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

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

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 School finances and meets the cash flow needs of its enterprise activities.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The full accrual basis of accounting is used for reporting purposes. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Revenues resulting from non-exchange transactions, in which the School 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 School and its Sponsor prescribes an annual budget requirement in addition to preparing a five year forecast, which is to be updated on an annual basis. Chapter 5705.391(A) of the Ohio Revised Code also requires the School to prepare a five 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 School is pooled in a central bank account. The School did not have any investments during fiscal year 2010.

**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 School 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 School does not capitalize interest.

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

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



**Horizon Science Academy Cleveland Middle School**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2010*

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

**F. Intergovernmental Revenues**

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

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

**G. Operating Revenues and Expenses**

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

**H. Compensated Absences**

School 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 School or through external restrictions imposed by creditors, grantors, or contracts. The School 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, 2010, the School had no restricted net assets.

**J. Estimates**

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

**Horizon Science Academy Cleveland Middle School**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2010*

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**3. DEPOSITS**

As of June 30, 2010, the School's bank balance of \$84,888 was covered by FDIC.

Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned to it. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the Federal Deposit Insurance Corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. The School has no policy regarding custodial credit risk.

**4. CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	<b>Beginning Balance July 1, 2009</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance June 30, 2010</b>
Equipment - Instructional	\$150,924	\$0	\$30,334	\$120,590
Equipment - Office	60,180	0	0	60,180
School Vehicle	16,005	0	0	16,005
Total Capital Assets	227,109	0	30,334	196,775
Less: Accumulated Depreciation	(109,968)	(28,271)	(8,634)	(129,605)
Net Capital Assets	<u>\$117,141</u>	<u>(\$28,271)</u>	<u>\$21,700</u>	<u>\$67,170</u>

**5. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

Plan Description - The School contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits; annual cost-of-living adjustments; and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report can be obtained by contacting SERS, 300 E. Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free 1-800-878-5853. It is also posted on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

**Horizon Science Academy Cleveland Middle School**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2010*

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

**A. School Employees Retirement System (Continued)**

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund and Health Care Fund) of the System. For fiscal year ending June 30, 2010, the allocation to pension and death benefits is 12.78 percent. The remaining 1.22 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. The School's contributions to SERS for the fiscal years ended June 30, 2010, 2009 and 2008 were \$13,135, \$8,058 and \$15,072, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

**B. State Teachers Retirement System**

Plan Description – The School participates in the State Teachers Retirement System of Ohio ("STRS Ohio"), a cost-sharing, multiple-employer defined benefit pension plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a publicly-available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling toll free (888) 227-7877, or by visiting the STRS Ohio website 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 times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

**Horizon Science Academy Cleveland Middle School**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2010*

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

**B. State Teachers Retirement System (Continued)**

Funding Policy – For the fiscal year ended June 30, 2010, plan members were required to contribute 10 percent of their annual covered salaries. The Sponsor was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations with the remainder being used to fund health care benefits. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009, and 2008 were \$58,155, \$89,314, and \$108,015 respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2010, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages.

**6. POSTEMPLOYMENT BENEFITS**

**A. School Employee Retirement System**

Plan Description – The School participates in two cost-sharing, multiple-employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage and traditional indemnity plans as well as a prescription drug program. The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by SERS based on authority granted by State statute. The financial reports of both plans are included in the SERS Comprehensive Annual Financial Report. That report may be obtained by writing to SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website, [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 of statutorily required benefits, the SERS 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 under, and is administered in accordance with, Internal Revenue Code Section 105(e). For fiscal year 2010, 0.46 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 2010, this amount was \$35,800.

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

**Horizon Science Academy Cleveland Middle School**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2010*

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**6. POSTEMPLOYMENT BENEFITS (Continued)**

**A. School Employee Retirement System (Continued)**

The School's contributions for health care for the fiscal years ended June 30, 2010, 2009 and 2008 were \$6,011, \$926, and \$6,877, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

The SERS Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2010, the actuarially required allocation was 0.76 percent of covered payroll. The School's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$1,098, \$1,062, and \$811 respectively, which equaled the required contribution for those fiscal years.

**B. School Teachers Retirement System**

**Plan Description** – The School contributes to the cost-sharing, multiple-employer defined benefit Health Plan administered by STRS Ohio for eligible, certificated retirees and their beneficiaries who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS Ohio based on authority granted by State statute. The Plan is included in the financial report of STRS Ohio. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting [www.strsoh.org](http://www.strsoh.org) or by requesting a copy by calling toll-free 1-888-227-7877.

**Funding Policy** – Ohio law authorizes STRS Ohio to offer the Health Plan and gives the STRS 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 Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions. For fiscal year 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$4,473, \$5,616, and \$9,066, respectively; and 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

**7. RISK MANAGEMENT**

**A. 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. During fiscal year 2010, the School contracted with Great American Insurance Company for property and general liability insurance with a \$1,000,000 single occurrence limit and \$3,000,000 annual aggregate and no deductible. There has been no reduction in coverage from the prior year. There have been no settlements exceeding coverage.

**B. Workers Compensation**

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

**Horizon Science Academy Cleveland Middle School**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2010*

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**8. EMPLOYEE MEDICAL AND DENTAL BENEFITS**

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

**9. PURCHASED SERVICES**

Purchased service expenses during fiscal year 2010 were as follows:

<u>Type</u>	<u>Amount</u>
Professional Services	\$316,955
Rent and Property Services	312,011
Administrative Travel	4,025
Advertising and Communications	16,551
Pupil Transportation	6,234
Total	<u>\$655,776</u>

**10. OPERATING LEASES**

The School entered into a lease agreement with Horizon Science Academy of Cleveland on January 1, 2006 for five years for the modular building located at 6100 South Marginal Road, Cleveland, Ohio, 44103. The landlord transferred its property to Breeze Inc. The monthly lease payment is \$11,500 plus an additional monthly renovation expense, which increases annually. Payments totaled \$238,976 for fiscal year 2010. The School does not have rent obligations.

The School also entered into a lease agreement with Breeze Inc, for the Elementary School building on September 1, 2007 for ten years. The monthly lease payment at that time was \$12,500. The annual rent shall increase by 4% over the rent for the preceding year. In 2009, the school entered into a sublease agreement for the Elementary School building with Horizon Science Academy Cleveland Elementary School for the same rates as above, which for fiscal year 2010 was \$13,520. For fiscal year 2010, the School received \$134,160.

**Horizon Science Academy Cleveland Middle School**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2010*

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**11. CAPITALIZED LEASE**

The School entered into a capital lease agreement for a copy machine/printer in the fiscal year ending June 30, 2006. 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 risk of ownership to the lessee. The capital lease was recorded at the present value of the future minimum lease payments as of the inception date. Principal payments made during fiscal year 2010 total \$3,317.

The following is a schedule of the future minimum lease payments required under the capital lease as of June 30, 2010:

	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2011	<u>\$74</u>	<u>\$2,742</u>	<u>\$2,816</u>
Total	<u>\$74</u>	<u>\$2,742</u>	<u>\$2,816</u>

**12. CONTINGENCIES**

**A. Grants**

The School received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs 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 School. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the School. In fiscal year 2010, the School received grants from State and Federal agencies totaling \$430,970.

**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 School. 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.

**13. SPONSORSHIP AGREEMENT**

On November 19, 2004, Lucas County Educational Service Center assumed responsibility for sponsorship of the School. The Sponsor is responsible for evaluating the performance of the School 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 School pays 1.5 percent of its foundation revenues to the Sponsor. In fiscal year 2010, the School's compensation to the Sponsor was \$15,160.

**Horizon Science Academy Cleveland Middle School**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010*

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**14. MANAGEMENT COMPANY AGREEMENT**

In January 2005, the School contracted with Concepts Schools, Inc. to serve as the School's management company. The contract is renewed automatically every year in one year terms unless the School or the management company decides otherwise. According to the contract, the School transfers 12 percent of the funds received from the State. In fiscal year 2010, the School paid fees in the amount of \$102,956 to Concept Schools for management services.

**15. RELATED PARTIES**

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





# Dave Yost • Auditor of State

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

Horizon Science Academy Cleveland Middle School  
Cuyahoga County  
6100 South Marginal Road  
Cleveland, Ohio 44103

To the Board of Directors:

We have audited the financial statements of Horizon Science Academy Cleveland Middle School, Cuyahoga County, (the School) as of and for the year ended June 30, 2010, and have issued our report thereon dated March 21, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School'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 School's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School'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 School'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 School'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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2010-001.

We also noted certain matters not requiring inclusion in this report that we reported to the School's management in a separate letter dated March 21, 2011.

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

We intend this report solely for the information and use of management, Board of Trustees, the Community School's sponsor, and others within the School. We intend it for no one other than these specified parties.



**Dave Yost**  
Auditor of State

March 21, 2011

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

**SCHEDULE OF FINDINGS  
JUNE 30, 2010**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2010-001**

**Noncompliance Citation**

**Annual Financial Reporting**

Ohio Revised Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The report shall be certified by the proper officer or Board and filed with the Auditor of State within one hundred fifty days of the end of the fiscal year if GAAP statements are filed. The report shall be filed within one hundred fifty days of the end of the fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. In part this report shall contain the following:

- Amount of collections and receipts, and accounts due from each source; and
- Amount of expenditures for each purpose.

Ohio Administrative Code Section 117-2-03(B) further clarifies the filing requirements of Ohio Revised Code Section 117.38. This section requires that all counties, cities, and school districts, including educational service centers and community schools, file annual financial reports which are prepared using generally accepted accounting principles. Generally accepted accounting principles (GAAP) require the following:

- Balance sheet as prescribed by GAAP standards;
- Income and expense statement as prescribed by GAAP standards;
- Cash flow statement as prescribed by GAAP standards; and
- Notes to the financial statements as prescribed by GAAP standards.

Per our review of the Local Government Services Financial Filing website, the School did not file its financial statements for the year ended June 30, 2010 until March 18, 2011.

In addition, Ohio Revised Code Section 117.38 provides, in part, that "at the time the report is filed with the auditor of state, the chief fiscal officer, except as otherwise provided in Section 319.11 of the Ohio Revised Code, shall publish notice in a newspaper published in the political subdivision or taxing district, and if there is no such newspaper, then in a newspaper of general circulation in the political subdivision or taxing district. The notice shall state that the financial report has been completed by the public office and is available for public inspection at the office of the chief fiscal officer."

No evidence was provided, by the School, that this required notice was published. This may prevent the public from being aware of the transparency available in the School.

By not filing their financial reports timely and not issuing an annual notice, the School is not fulfilling their duties of accountability and transparency to the public.

We recommend the School organize its financial recordkeeping, develop tickler files as a reminder of filing dates and take all other steps necessary to file its financial statements within the prescribed time period and publish the notice of availability as required. If these financial statements are not filed within the prescribed timetable the School may be assessed a late filing penalty.

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

**SCHEDULE OF FINDINGS  
JUNE 30, 2010  
(Continued)**

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

**FINDING NUMBER 2010-001  
(Continued)**

**Noncompliance Citation (Continued)**

**Annual Financial Reporting (Continued)**

We also recommend at the time the report is filed with the auditor of state, the School, except as otherwise provided in section 319.11 of the Revised Code, shall publish notice in a newspaper published in the political subdivision or taxing district, and if there is no such newspaper, then in a newspaper of general circulation in the political subdivision or taxing district. The notice shall state that the financial report has been completed by the public office and is available for public inspection at the School's central office.

**MANAGEMENT'S RESPONSE:**

The School appreciates the assistance of the Auditor's office in informing the School of any missed deadlines. The School will file their financial reports within the prescribed deadlines for fiscal year 2011.



# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Horizon Science Academy Cleveland Middle School  
Cuyahoga County  
6100 South Marginal Road  
Cleveland, Ohio 44103

To the Board of Directors:

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

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

1. We noted the Board adopted an anti-harassment policy at its meeting on November 12, 2007.
2. We read the policy, noting it included the following requirements from Ohio Rev. Code Section 3313.666(B):
  - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
  - (2) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666;
  - (3) A procedure for reporting prohibited incidents;
  - (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;

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

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

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



**Dave Yost**  
Auditor of State

March 21, 2011



# Dave Yost • Auditor of State

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

## **CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
APRIL 12, 2011**