# HORIZON SCIENCE ACADEMY TOLEDO DOWNTOWN
## LUCAS COUNTY

## REGULAR AUDIT

## FOR THE YEAR ENDED JUNE 30, 2011

Dave Yost • Auditor of State

**HORIZON SCIENCE ACADEMY TOLEDO DOWNTOWN**
**LUCAS COUNTY**

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**INDEPENDENT ACCOUNTANTS' REPORT**

Horizon Science Academy Toledo Downtown
Lucas County
425 Jefferson Ave., 4th Floor
Toledo, Ohio 43604

To the Governing Board:

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

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

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

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

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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.

**Dave Yost**
Auditor of State

May 22, 2012

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

## Financial Highlights

Key financial highlights for fiscal year 2011 are as follows:

- Total assets were $252,809
- Total liabilities were $120,671
- Total net assets were $132,138

## Using this Financial Report

This report consists of three parts: the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and change in net assets, and a statement of cash flows.

## Reporting the School as a Whole

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The statement of net assets and the statement of revenues, expenses and change in net assets, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the Academy's net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net assets – as reported in the statement of revenues, expenses and change in net assets – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results. However, the Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the Academy, to assess the overall health of the Academy.

The statement of net assets and the statement of revenues, expenses and change in net assets report the activities of the Academy, which encompass all the Academy's services, including instruction, supporting services, community services, and food services. Unrestricted state aid and state and federal grants finance most of these activities.

The following table provides a summary of the Academy's Net Assets at the end of its first fiscal year which ended June 30, 2011:

| | |
|---|---|
| Assets | |
| Current and Other Assets | $111,892 |
| Capital Assets, Net | 140,917 |
| Total Assets | 252,809 |
| | |
| Liabilities | |
| Current Liabilities | 120,671 |
| Total Liabilities | 120,671 |
| | |
| Net Assets | |
| Invested in Capital Assets | 140,917 |
| Unrestricted | (8,779) |
| Total Net Assets | $132,138 |

Total assets were $252,809 due mainly to revenues associated with student enrollment. Capital assets, net were $140,917 due to purchase of capital assets, net of accumulated depreciation of $27,516. Total liabilities were $120,671 due mainly to accrued wages and benefits payable of $49,492, accounts payable of $27,186, and Loan outstanding of $32,000.

The following table provides a summary of the Statement of Revenues, Expenses and Changes in Net Assets for the Academy's first fiscal year ended June 30, 2011.

| | |
|---|---|
| Operating Revenue/Expense | |
| Revenue | |
| Foundation Payments | $733,031 |
| Food Services | 3,570 |
| Classroom Fees | 1,985 |
| Extracurricular Activities | 2,205 |
| Donated Management Fee | 93,045 |
| Other Local Revenue | 1,978 |
| Total Operating Revenues | 835,814 |
| Expense | |
| Salaries | 489,627 |
| Fringe Benefits | 125,814 |
| Purchased Services | 354,655 |
| Materials and Supplies | 111,290 |
| Miscellaneous Expenses | 27,516 |
| Depreciation Expense | 27,892 |
| Total Operating Expenses | 1,136,794 |
| Net Operating Loss | (300,980) |
| Non-Operating Revenues | |
| Restricted Grant-In-Aid- Federal | 428,118 |
| Restricted Grant In-Aid- State | 5,000 |
| Total Non-Operating Revenues | 433,118 |
| Net Assets | |
| Change in Net Assets | 132,138 |
| Net Assets at Beginning of Year | |
| Net Assets at End of Year | $132,138 |

Foundation support and federal grant revenue were $733,031 and $428,118, respectively, primarily as a result of student enrollment. Academy had salaries and fringe benefits in the amount of $615,441 in 2011 for administrative, teaching, and support services in educating the students. Purchased services were $354,655 also as a result of need for purchased services resulting from student enrollment.

Foundation support is the primary support of the Academy, comprising 88% of operating revenue and 58% of total revenues. The Academy also received a significant portion of federal grants, which represent 34% of total revenue. Salaries and benefits comprise the largest portion of operating expenses, representing 54% of total operating expenses. Purchased services also represent a large portion of operating expenses, or 31%. Net assets were $132,138 resulting from revenues in excess of expenses.

**Capital Assets**

At the end of fiscal year 2011 the Academy had $168,433, invested in furniture and equipment ($140,917 net of accumulated depreciation). Table below shows the Academy's first fiscal year ended June 30, 2011:

| | Balance 07/01/10 | Additions | Deletions | Balance 06/30/11 |
|---|---|---|---|---|
| Furniture and Equipment | | $168,433 | | $168,433 |
| Less: Accumulated Depreciation | | $(27,516) | | $(27,516) |
| Net Capital Assets | | $140,917 | | $140,917 |

**Debt**

The Academy entered into a promissory note for operating and capital asset expenses. The note was approved up to $100,000 of which $92,000 was drawn by fiscal year end. The balance due on the note at June 30, 2011 was $32,000.

**Contacting the Academy's Financial Management**

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the Academy's finances. Questions concerning any of the information in this report or requests for additional information should be directed to Ramazan Celep, Treasurer, Horizon Science Academy Toledo Downtown, 425 Jefferson Avenue 4th Floor, Toledo, Ohio 43604-1060.

**HORIZON SCIENCE ACADEMY TOLEDO DOWNTOWN**
**LUCAS COUNTY, OHIO**

STATEMENT OF NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30,2011

| | |
|---|---|
| **ASSETS:** | |
| **Current Assets:** | |
| Cash and cash equivalents | $93,314 |
| Intergovernmental receivable | 18,578 |
| Total current assets | 111,892 |
| **Noncurrent Assets:** | |
| Depreciable capital assets (Net of Accumulated Depreciation) | 140,917 |
| Total assets | 252,809 |
| **LIABILITIES:** | |
| **Current Liabilities:** | |
| Accounts payable | 27,186 |
| Accrued wages and benefits payable | 49,492 |
| Loan payable | 32,000 |
| Intergovernmental payable | 11,993 |
| Total current liabilities | 120,671 |
| **NET ASSETS:** | |
| Invested in capital assets | 140,917 |
| Unrestricted (deficit) | (8,779) |
| Total net assets | $132,138 |

See accompanying notes to the basic financial statements.

**HORIZON SCIENCE ACADEMY TOLEDO DOWNTOWN**
**LUCAS COUNTY, OHIO**

STATEMENT OF REVENUE, EXPENSES
AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30,2011

| | |
|---|---|
| **OPERATING REVENUES:** | |
| Foundation payments | $733,031 |
| Food services | 3,570 |
| Classroom fees | 1,985 |
| Extracurricular activities | 2,205 |
| Donated management fee | 93,045 |
| Other revenue | 1,978 |
| Total operating revenues | 835,814 |
| **OPERATING EXPENSES:** | |
| Salaries | 489,627 |
| Fringe benefits | 125,814 |
| Purchased services | 354,655 |
| Materials and supplies | 111,290 |
| Depreciation | 27,516 |
| Miscellaneous | 27,892 |
| Total operating expenses | 1,136,794 |
| Operating loss | (300,980) |
| **NON-OPERATING REVENUES:** | |
| Restricted grants in aid – federal | 428,118 |
| Restricted grants in aid – state | 5,000 |
| Total non-operating revenues | 433,118 |
| Change in net assets | 132,138 |
| Net assets, beginning of year | |
| Net assets, end of year | $132,138 |

See accompanying notes to the basic financial statements.

**HORIZON SCIENCE ACADEMY TOLEDO DOWNTOWN**
**LUCAS COUNTY, OHIO**

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30,2011

| | |
|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | |
| Cash received from State of Ohio | $714,453 |
| Cash received from other operating revenues | 9,738 |
| Cash payments to suppliers for goods and services | (347,750) |
| Cash payments to employees for services and benefits | (553,956) |
| Other cash payments | (25,856) |
| Net cash used for operating activities | (203,371) |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:** | |
| Proceeds from the issuance of notes | 32,000 |
| Federal grants received | 428,118 |
| State grants received | 5,000 |
| Net cash provided by noncapital financing activities | 465,118 |
| **CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:** | |
| Proceeds from the issuance of notes | 60,000 |
| Principal paid on notes payable | (60,000) |
| Payment for capital acquisitions | (168,433) |
| Net cash used for capital and related financing activities | (168,433) |
| Net increase in cash and cash equivalents | 93,314 |
| Cash and cash equivalents at beginning of year | |
| Cash and cash equivalents at end of year | $93,314 |
| **RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES** | |
| Operating loss | ($300,980) |
| **ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES:** | |
| Depreciation | 27,516 |
| **Changes in Assets and Liabilities:** | |
| Increase in intergovernmental receivable | (18,578) |
| Increase in accounts payable | 27,186 |
| Increase in accrued wages and benefits payable | 49,492 |
| Increase in intergovernmental payable | 11,993 |
| Total adjustments | 97,609 |
| Net cash used for operating activities | ($203,371) |

See accompanying notes to the basic financial statements.

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## 1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

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

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

The Academy was approved for operation under contract with the Buckeye Community Hope Foundation (the Sponsor) for a period of five years ending June 30, 2015. The Academy operates under the direction of a self-appointed five-member Board of Trustees. The Board is responsible for carrying out the provisions of the contract, which 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 Academy's facility, which is currently, staffed by 16 full and part time personnel who provide services to up to 108 students during the year.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### A. Basis of Presentation

The Academy's basic financial statements consist of a statement of net assets; a statement of revenues, expenses, and change in net assets; and a statement of cash flows. The Academy uses enterprise accounting to report its financial activities. Enterprise accounting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

### B. Measurement Focus and Basis of Accounting

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

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

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

### C. Budgetary Process

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

### D. Cash

To improve cash management, all cash received by the Academy is pooled in a central bank account. The Academy did not have any investments during fiscal year 2011.

### E. Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of one thousand dollars. 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. Improvements are capitalized. The Academy does not capitalize interest.

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

| | Useful Life |
|---|---|
| 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 |

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

### F. Intergovernmental Revenues

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

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

### G. Operating Revenues and Expenses

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

### H. Compensated Absences

Academy policy indicates that all leave earned by employees must be used in the current period and balances are not carried forward and, therefore, are not recorded as a liability.

### I. Net Assets

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

### J. Estimates

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

## 3. DEPOSITS

As of June 30, 2011, the carrying amount of the Academy’s deposits was $93,314 and the bank balance was $130,536. The entire balance was covered by the Federal Deposit Insurance Corporation (FDIC).

## 4. CAPITAL ASSETS

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

| | Balance 07/01/10 | Additions | Deletions | Balance 06/30/11 |
|---|---|---|---|---|
| Furniture and Equipment | | $168,433 | | $168,433 |
| Less: Accumulated Depreciation | | $(27,516) | | $(27,516) |
| Net Capital Assets | | $140,917 | | $140,917 |

## 5. DEFINED BENEFIT PENSION PLANS

### A. School Employees Retirement System

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

Plan members are required to contribute 10% of their annual covered salary and Horizon Science Academy Toledo Downtown is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ending June 30, 2011, the allocation to pension and death benefits is 11.81%. The remaining 2.19% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The Academy's required contributions for pension obligations and death benefits to SERS for the fiscal year ended June 30, 2011 was $4,842; 100% of has been contribution for the fiscal year.

### B. State Teachers Retirement System

State Teachers Retirement System of Ohio (STRS Ohio) is a cost-sharing, multiple-employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, community school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

## 5. DEFINED BENEFIT PENSION PLANS (Continued)

**Plan Options** – New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5 percent of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

**DB Plan Benefits** – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation of every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

**DC Plan Benefits** – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. 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. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. 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.

**Combined Plan Benefits** – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member’s defined benefit is determined by multiplying 1% of the member’s final average salary by the member’s years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

## 5. DEFINED BENEFIT PENSION PLANS (Continued)

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3% of the original base amount for DB Plan participants. The DB and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

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 members who die before retirement may qualify for survivor benefits. A death benefit of $1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to $2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

For the fiscal year ended June 30, 2011, plan members were required to contribute 10 percent of their annual covered salaries. For this fiscal year, the Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS Ohio, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The Academy's required contributions for pension obligations to STRS Ohio for the fiscal year ended June 30, 2011 was $52,744; 98% has been contributed for fiscal year 2011.

STRS Ohio issues a stand-alone financial report. Copies of STRS Ohio's Comprehensive Annual Financial Report can be requested by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting STRS Ohio website at www.strsoh.org.

## 6. POSTEMPLOYMENT BENEFITS

### A. School Employees Retirement System

In addition to a cost-sharing multiple-employer defined benefit pension plan the School Employees Retirement System of Ohio (SERS) administers two postemployment benefit plans.

## 6. POSTEMPLOYMENT BENEFITS (Continued)

Medicare Part B Plan

The Medicare Part B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2011 was $96.40 for most participants, but could be as high as $369.10 per month depending on their income. SERS' reimbursement to retirees was $45.50.

The 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 2011, the actuarially required allocation is .76%. The Academy's required contributions for the fiscal year ended June 30, 2011 was $312; 100% has been contribution for the fiscal year.

Health Care Plan

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code § 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the year ended June 30, 2011, the health care allocation is 1.43%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. State law provides that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the minimum compensation level was established at $35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The Academy's required contribution for health care for the fiscal year ended June 30, 2011 was $586; 100% has been contribution for the fiscal year.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

## 6. POSTEMPLOYMENT BENEFITS (Continued)

The financial reports of SERS' Health Care and Medicare B plans are included in its Comprehensive Annual Financial Report. The report can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

### B. State Teachers Retirement System

STRS Ohio administers a pension plan that is comprised of: a defined benefit plan; a self-directed defined contribution plan and a combined plan which is a hybrid of the defined benefit and defined contribution plan.

Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the defined benefit or combined plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums.

Pursuant to 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients, for most recent year, pay a portion of health care costs in form of a monthly premium.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting www.strsoh.org or by requesting a copy by calling toll-free 1-888-227-7877.

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14 percent employer contribution rate, 1 percent of covered payroll was allocated to post-employment health care for the year ended June 30, 2011. The 14 percent employer contribution rate is the maximum rate established under Ohio law. Academy's required contribution for fiscal year 2011 was $4,057; 98% has been contributed for fiscal year 2011.

## 7. RISK MANAGEMENT

### A. Property and Liability

The Academy is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2011, the Academy contracted with Selective 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. Academy also maintains School Board Legal Employment Practices insurance of $1,000,000 single occurrence limit and $2,000,000 annual aggregate; Automobile Liability coverage of $1,000,000 combined single limit; and Umbrella coverage of $5,000,000 each occurrence and $5,000,000 annual aggregate. There have been no settlements exceeding coverage during the fiscal year.

### B. Workers Compensation

The Academy pays the State Workers Compensation System a premium for employee injury coverage. The premium is calculated by multiplying monthly total gross payroll by a factor that is calculated by the State. 100% of this premium was paid for fiscal year 2011.

## 8. EMPLOYEE MEDICAL AND DENTAL BENEFITS

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

## 9. PURCHASED SERVICES

Purchased service expenses during fiscal year 2011 were as follows:

| **Type** | **Amount** |
|---|---|
| Professional Services | $ 197,077 |
| Rent and Property Services | 121,188 |
| Admin Travel | 1,348 |
| Advertising and Communications | 3,631 |
| Pupil Transportation | 31,411 |
| Total | $ 354,655 |

## 10. OPERATING LEASES

The Academy entered into a lease for a building facility for the period August 1, 2010 through ending on the last day of July 2011 with Zaleski Secor LLC. During fiscal year 2011, payments made to Zaleski Secor LLC totaled $114,401. The Academy renewed its lease agreement with Zaleski Score LLC on August 1, 2011. The term of the lease is for one (1) year beginning on August 1, 2011 and ending on July 31, 2012. Monthly rent is $12,245 for fiscal year 2012. The following is a schedule of the future payments required for operating leases as of June 30, 2011.

| Fiscal Year Ending June 30, | Facility Lease |
|---|---|
| 2012 | $146,940 |

## 11. NOTE PAYABLE

The Academy entered into a promissory note with Concept School, Inc. with a zero percent interest rate for operating and capital asset expenses. Note payable activity during fiscal year 2011 was as follows:

| | Balance 7/1/2010 | Additions | Deletions | Balance 6/30/2011 |
|---|---|---|---|---|
| Note Payable – Concept Schools | | $92,000 | $60,000 | $32,000 |

## 12. CONTINGENCIES

### A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the Academy. In fiscal year 2011, the Academy received grants from State and Federal agencies total of $433,118.

### B. Ohio Department of Education Enrollment Review

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the Academy. These reviews are conducted to ensure the Community School is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. Conclusion of this review resulted in State funding being adjusted due to an underpayment in the amount of $18,578 by ODE. Underfunded amount has been recorded as an increase in revenue and intergovernmental receivables at June 30, 2011.

## 13. SPONSORSHIP AGREEMENT

On July 1, 2010, Buckeye Community Hope Foundation assumed responsibility for sponsorship of the Academy for five (5) years ending June 30, 2015. Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. According to the contract, the Academy pays 3% of its foundation revenues to the Sponsor. In fiscal year 2011, the Academy's compensation to the Sponsor was $18,394.

## 14. MANAGEMENT COMPANY AGREEMENT

In April 2010, the Academy contracted with Concepts Schools, Inc. to serve as the Academy's management company. The contract is renewed automatically every year in one year terms unless the Academy or the management company decides otherwise. According to the contract, the Academy transfers 12% of the funds received from the State, amounting to $93,045. In fiscal year 2011, the Academy has paid $0 fees to Concept Schools for management services, $93,045 were forgiven by Concept Schools, and are reflected in the statement of revenues, expenses and change in net assets as donated management fee.

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

Horizon Science Academy Toledo Downtown
Lucas County
425 Jefferson Ave., 4th Floor
Toledo, Ohio 43604

To the Governing Board:

We have audited the basic financial statements of Horizon Science Academy Toledo Downtown, Lucas County, Ohio (the Academy), as of and for the year ended June 30, 2011, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated May 22, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

One Government Center, Suite 1420, Toledo, Ohio 43604-2246
Phone: 419-245-2811 or 800-443-9276 Fax: 419-245-2484
**www.ohioauditor.gov**

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

**Dave Yost**
Auditor of State

May 22, 2012

# Dave Yost • Auditor of State

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

Horizon Science Academy Toledo Downtown
Lucas County
425 Jefferson Ave.,4th Floor
Toledo, Ohio 43604

To the Governing Board:

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

Accordingly, we have performed the procedure enumerated below, which were agreed to by the Governing Board, solely to assist the Governing Board in evaluating whether Horizon Science Academy Toledo Downtown, Lucas County, Ohio (the Academy) has adopted and updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Governing 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.

We noted the Academy adopted an anti-harassment policy at its meeting on April 24, 2010. This policy included all matters required by Ohio Rev. Code 3313.666. The Academy amended its anti-harassment policy at its meeting on April 21, 2012 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

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

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

Dave Yost

**Dave Yost**
Auditor of State

May 22, 2012

# Dave Yost • Auditor of State

**HORIZON SCIENCE ACADEMY TOLEDO DOWNTOWN**

**LUCAS 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**
**JUNE 5, 2012**

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