



Balestra, Harr & Scherer, CPAs, Inc.

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

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HORIZON SCIENCE ACADEMY DENISON ELEMENTARY SCHOOL
CUYAHOGA COUNTY

REGULAR AUDIT

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



Dave Yost • Auditor of State

Board of Trustees
Horizon Science Academy Denison Elementary School
2261 Columbus Road
Cleveland, Ohio 44113

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

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

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

Dave Yost
Auditor of State

March 26, 2013

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

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

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Independent Auditor's Report

Members of the Board
Horizon Science Academy Denison Elementary School
Cuyahoga County
2261 Columbus Road
Cleveland, Ohio 44113

We have audited the accompanying financial statements of the business-type activities of the Horizon Science Academy Denison Elementary School, Cuyahoga County, Ohio, (the Academy), as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Horizon Science Academy Denison Elementary School, Cuyahoga County, Ohio, as of June 30, 2012, and the change in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2013, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we do not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. The report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

Balestra, Harr & Scherer, CPAs

Balestra, Harr & Scherer, CPAs, Inc.

January 18, 2013

Horizon Science Academy Denison Elementary School

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2012

(Unaudited)

The discussion and analysis of Horizon Science Academy Denison Elementary School's (the Academy) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2012. Readers should also review the financial statements and notes to enhance their understanding of the Academy's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2012 are as follows:

- Total assets were \$590,781.
- Total liabilities were \$100,170.
- Total net assets increased \$41,703.

Using this Financial Report

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

Reporting the Academy as a Whole

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes 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 Changes in Net Assets report the activities of the Academy, which encompass all the Academy's services, including instruction, supporting services, community services, and food services. Unrestricted state aid and state and federal grants finance most of these activities.

Horizon Science Academy Denison Elementary School

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Unaudited)*

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

Table 1

	Net Assets	
	2012	2011
<u>Assets</u>		
Current and Other Assets	\$319,487	\$205,168
Capital Assets, Net	271,294	333,184
Total Assets	\$590,781	\$538,352
<u>Liabilities</u>		
Current Liabilities	\$100,170	\$89,444
Total Liabilities	\$100,170	\$89,444
<u>Net Assets</u>		
Invested in Capital Assets	\$271,294	\$333,184
Unrestricted	219,317	115,724
Total Net Assets	\$490,611	\$448,908

Total assets increased \$52,429. Capital assets decreased by \$61,890, net of accumulated depreciation. Intergovernmental receivables increased by \$81,359. Total liabilities increased by \$10,726. This increase is due mainly to an increase of \$18,321 in accounts payable.

The unrestricted net assets represent the accumulated results of the Academy's operations to date. These assets can be used to finance day to day operations without constraints, such as legislative or legal requirements. The results of the current year operations for the Academy as a whole are reported in the Statement of Revenues, Expenses and Changes in Net Assets, which shows the change in net assets.

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

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

Table 2

	June 30, 2012	June 30, 2011
OPERATING REVENUES:		
Foundation payments	\$1,403,002	\$1,160,233
Food services	1,427	2,311
Classroom fees	5,083	13,159
Extracurricular activities	7,607	7,344
Other revenue	3,981	51,416
Total operating revenues	<u>1,421,100</u>	<u>1,234,463</u>
OPERATING EXPENSES:		
Salaries	708,222	749,492
Fringe benefits	179,533	181,273
Purchased services	658,734	428,308
Materials and supplies	85,374	122,276
Depreciation	71,516	68,229
Miscellaneous	64,868	102,077
Total operating expenses	<u>1,768,247</u>	<u>1,651,655</u>
Operating loss	<u>(347,147)</u>	<u>(417,192)</u>
NON-OPERATING REVENUES (EXPENSES):		
Interest expense	(683)	(683)
Restricted grants in aid - federal	384,048	530,063
Restricted grants in aid - state	1,835	7,450
Donated management fee	3,650	-
Total non-operating revenues (expenses)	<u>388,850</u>	<u>536,830</u>
Change in net assets	41,703	119,638
Net assets, beginning of year	<u>448,908</u>	<u>329,270</u>
Net assets, end of year	<u>\$490,611</u>	<u>\$448,908</u>

Foundation support revenue increased \$242,769 primarily as a due to increase in enrollment. Federal grant revenue decreased \$146,015 due to discontinued ARRA and Startup Grants. Total operating expenses increased \$116,592 also as a result of increased in salaries and benefits due to increased enrollment.

Foundation support is the primary support of the Academy, comprising 99% of operating revenue and 78% of total revenues. The Academy also received a significant portion of federal grants and donations, which represent 21% and 1% of total revenue. Salaries and benefits comprise the largest portion of operating expenses, representing 50% of total operating expenses. Purchased services also represent a large portion of operating expenses, or 42%. Net assets increased \$41,703 resulting from revenues in excess of expenses.

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

Capital Assets

At the end of fiscal year 2012 the Academy had \$446,114, invested in furniture and equipment, (\$271,294 net of accumulated depreciation). Table 3 shows fiscal year 2012 and fiscal year 2011:

Table 3

Capital Assets				
	Balance			Ending
	July 1, 2011	Additions	Deletions	June 30, 2012
Furniture and Equipment	\$437,852	\$9,626	(\$1,364)	\$446,114
Total Fixed Assets	437,852	9,626	(1,364)	446,114
Less: Accumulated Depreciation	(104,668)	(71,516)	1,364	(174,820)
Net Fixed Assets	\$333,184	(\$61,890)	\$-	\$271,294

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

Contacting the Academy's Financial Management

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the Academy's finances. Questions concerning any of the information in this report or requests for additional information should be directed to Ramazan Celep, Treasurer, Horizon Science Academy Denison Elementary School, 2261 Columbus Road, Cleveland, OH 44113.

Horizon Science Academy Denison Elementary School

Statement of Net Assets

For the Fiscal Year Ended June 30, 2012

ASSETS:

Current Assets:

Cash and cash equivalents	\$238,128
Intergovernmental receivable	<u>81,359</u>
Total current assets	<u>319,487</u>

Noncurrent Assets:

Depreciable capital assets (Net of Accumulated Depreciation)	<u>271,294</u>
Total assets	<u>590,781</u>

LIABILITIES:

Current Liabilities:

Accounts payable	18,321
Accrued wages and benefits payable	66,607
Intergovernmental payable	144
Payroll liabilities	<u>15,098</u>
Total current liabilities	<u>100,170</u>
Total liabilities	<u>100,170</u>

NET ASSETS:

Invested in capital assets	271,294
Unrestricted (deficit)	<u>219,317</u>
Total net assets	<u><u>\$490,611</u></u>

See accompanying notes to the basic financial statements.

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

OPERATING REVENUES:

Foundation payments	\$1,403,002
Food services	1,427
Classroom fees	5,083
Extracurricular activities	7,607
Other revenue	<u>3,981</u>
 Total operating revenues	 <u>1,421,100</u>

OPERATING EXPENSES:

Salaries	708,222
Fringe benefits	179,533
Purchased services	658,734
Materials and supplies	85,374
Depreciation	71,516
Miscellaneous	<u>64,868</u>
 Total operating expenses	 <u>1,768,247</u>

Operating loss (347,147)

**NON-OPERATING REVENUES
(EXPENSES):**

Interest expense	(683)
Restricted grants in aid - federal	384,048
Restricted grants in aid - state	1,835
Donated management fee	<u>3,650</u>
 Total non-operating revenues (expenses)	 <u>388,850</u>

Change in net assets 41,703

Net assets, beginning of year 448,908

Net assets, end of year \$490,611

See accompanying notes to the basic financial statements.

Horizon Science Academy Denison Elementary School

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2012

INCREASE IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from State of Ohio	\$1,321,643
Cash received from other operating revenues	18,098
Cash payments to suppliers for goods and services	(722,135)
Cash payments to employees for services and benefits	(895,352)
Other cash payments	(64,868)
Net cash used for operating activities	<u>(342,614)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Federal grants received	384,048
State grants received	1,835
Net cash provided by noncapital financing activities	<u>385,883</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Interest paid on notes payable	(683)
Payment for capital acquisitions	(9,626)
Net cash provided by capital and related financing activities	<u>(10,309)</u>

Net increase in cash and cash equivalents	32,960
Cash and cash equivalents at beginning of year	<u>205,168</u>
Cash and cash equivalents at end of year	<u><u>\$238,128</u></u>

RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES

Operating loss	(\$347,147)
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ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES:

Depreciation	71,516
Donated management fee	3,650

Changes in Assets and Liabilities:

Increase in intergovernmental receivable	(81,359)
Increase in accounts payable	18,321
Decrease in accrued wages and benefits payable	(4,449)
Increase in intergovernmental payable	144
Decrease in payroll liabilities	(3,290)

Total adjustments	<u>4,533</u>
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Net cash used for operating activities	<u><u>(\$342,614)</u></u>
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See accompanying notes to the basic financial statements.

Horizon Science Academy Denison Elementary School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Horizon Science Academy Denison Elementary School (the Academy), is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in grades K through 5 in Cleveland. The Academy, which is part of the State's education program, is independent of any Academy and is nonsectarian in its programs, admission policies, employment practices, and all other operations.

The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy. The Academy qualifies as an exempt organization under Section 501(c) (3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the School'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 commencing March 24, 2008.

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 24 full and part time personnel who provide services to up to 182 students during the year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

The Academy's basic financial statements consist of a Statement of Net Assets; a Statement of Revenues, Expenses, and Change in Net Assets; and a Statement of Cash Flows.

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

B. Measurement Focus and Basis of Accounting

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

Horizon Science Academy Denison Elementary School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting (Continued)

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

C. Budgetary Process

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

D. Cash

To improve cash management, all cash received by the Academy is pooled in a central bank account. The Academy did not have any investments during fiscal year 2012.

E. Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold for inventory assets at \$1,000. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. The threshold for capitalized improvements (including labor, equipment and materials) is \$10,000. The Academy does not capitalize interest.

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

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

Horizon Science Academy Denison Elementary School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Intergovernmental Revenues

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

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

G. Operating Revenues and Expenses

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

H. Compensated Absences

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

I. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors, or contracts. The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. At fiscal year end June 30, 2012, the Academy had no restricted net assets.

J. Estimates

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

Horizon Science Academy Denison Elementary School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

3. DEPOSITS

As of June 30, 2012, the Academy's bank balance of \$245,888 was covered by FDIC.

The Academy has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Academy or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits secured.

4. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

Capital Assets				
	Balance			Ending
	July 1, 2011	Additions	Deletions	June 30, 2012
Furniture and Equipment	\$437,852	\$9,626	(\$1,364)	\$446,114
Total Fixed Assets	437,852	9,626	(1,364)	446,114
Less: Accumulated Depreciation	(104,668)	(71,516)	1,364	(174,820)
Net Fixed Assets	\$333,184	(\$61,890)	\$-	\$271,294

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 the Academy is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ending June 30, 2012, the allocation to pension and death benefits is 12.70%. The remaining 1.30% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The Academy's contributions to SERS for the years ended June 30, 2012, 2011, and 2010 were \$11,256, \$9,720 and \$16,963 respectively; and 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

Horizon Science Academy Denison Elementary School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

5. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

Plan Description – The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy – For fiscal year ended June 30, 2012, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

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

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011, and 2010 were \$87,912, \$100,158 and \$58,223, respectively; 100% has been contributed for fiscal years 2012, 2011 and 2010.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2012, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages.

Horizon Science Academy Denison Elementary School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

6. POSTEMPLOYMENT BENEFITS

A. State Teachers Retirement System

Plan Description – The Academy contributes to the cost sharing, multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. The Academy's contributions for health care for the years ended June 30, 2012, 2011 and 2010 were \$6,279, \$7,704 and \$4,479, respectively; and 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

B. School Employees Retirement System

Plan Description – The Academy participates in two cost-sharing, multiple employer defined benefit OPEB plans administered by the School Employees Retirement Systems for non-certified retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with the Internal Revenue Code Section 401h. For 2012, 0.55 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2012, this amount was \$35,800.

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

The Academy's contributions for health care for the fiscal years ended June 30, 2012, 2011 and 2010 were \$3,345, \$2,888 and \$7,763 respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

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 2012, this actuarially required allocation was 0.75% of covered payroll. The Academy's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011 and 2010 were \$603, \$521 and \$1,418, respectively, which equaled the required contributions each year.

Horizon Science Academy Denison Elementary School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

7. RISK MANAGEMENT

A. Property and Liability

The Academy is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2012, the Academy contracted with Great American Insurance Company for property and general liability insurance with a \$1,000,000 single occurrence limit and \$3,000,000 annual aggregate and no deductible. There has been no reduction in coverage from the prior year. There have been no settlements exceeding coverage.

B. Workers Compensation

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

8. EMPLOYEE MEDICAL AND DENTAL BENEFITS

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

9. PURCHASED SERVICES

Purchased service expenses during fiscal year 2012 were as follows:

<u>Type</u>	<u>Amount</u>
Professional Services	439,951
Rent and Property Services	183,572
Admin Travel	1,869
Advertising and Communications	31,679
Pupil Transportation	1,663
Total	<u>658,734</u>

10. OPERATING LEASES

The Academy entered into a one year lease agreement for an operating lease in fiscal year 2011 for school facilities on 2261 Columbus Rd, Cleveland, OH 44113 with St. Wendelin Parish., for period of August 1, 2009 thru July 31, 2010. The agreement was renewed at the end of the contract period for two more years for FY2011 and FY2012, but the landlord name changed to the Diocese of Cleveland Facility Service. According to that agreement, the monthly rent for the facilities is \$10,667. Payments totaled \$128,009 for fiscal year 2012.

Horizon Science Academy Denison Elementary School

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

11. CONTINGENCIES

A. Grants

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

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the Academy. In fiscal year 2012, the Academy received grants from State and Federal agencies total of \$385,883.

B. Ohio Department of Education Enrollment Review

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the Academy. These reviews are conducted to ensure the Community School is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. According to the FTE review made for fiscal year 2012, the Academy was underpaid by \$10,091. This amount is reflected as an Intergovernmental Receivable on the Statement of Net Assets.

12. SPONSORSHIP AGREEMENT

On March 24, 2008, Buckeye Community Hope Foundation assumed responsibility for sponsorship of the Academy. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. In 2010, the original contract was extended until June 30, 2015. According to the contract, the Academy pays three percent of its foundation revenues to the Sponsor. In fiscal year 2012, the Academy's compensation to the Sponsor was \$40,981.

13. MANAGEMENT COMPANY AGREEMENT

In March 2008, the Academy contracted with Concepts Schools, Inc. to serve as the Academy's management company. The contract is renewed automatically every year in one year terms unless the Academy or the management company decides otherwise. According to the contract, the Academy transfers 12 percent of the funds received from the State. In fiscal year 2012, the Academy paid \$210,711 to Concept Schools for management services, \$3,650 were forgiven by Concept Schools, and are reflected in the statement of revenues, expenses and change in net assets as donated management fee.

14. RELATED PARTIES

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

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Balestra, Harr & Scherer, CPAs, Inc.

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

Members of the Board
Horizon Science Academy Denison Elementary School
Cuyahoga County
2261 Columbus Road
Cleveland, Ohio 44113

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

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Balestra, Harr & Scherer, CPAs

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



Dave Yost • Auditor of State

HORIZON SCIENCE ACADEMY DENISON ELEMENTARY SCHOOL

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 9, 2013**