



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, 2014
Fiscal Year Audited Under GAGAS: 2014



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, 2013 through June 30, 2014. 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

January 30, 2015

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**HORIZON SCIENCE ACADEMY DENISION ELEMENTARY SCHOOL
CUYAHOGA COUNTY**

**BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

TABLE OF CONTENTS

| <u>TITLE</u> | <u>PAGE</u> |
|---|-------------|
| Independent Auditor's Report | 1 |
| Management's Discussion and Analysis | 3 |
| Basic Financial Statements: | |
| Government-Wide Financial Statements: | |
| Statement of Net Position | 7 |
| Statement of Revenues, Expenses and Change in Net Position | 8 |
| Statement of Cash Flows | 9 |
| Notes to the Basic Financial Statements | 10 |
| Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> | 19 |



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

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Independent Auditor's Report

Horizon Science Academy Denison Elementary School
Cuyahoga County
2261 Columbus Road
Cleveland, Ohio 44113

To the Board:

Report on the Financial Statements

We have audited the accompanying financial statements of Horizon Science Academy Denison Elementary School, Cuyahoga County, Ohio, (the Academy), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Academy's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Academy's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Horizon Science Academy Denison Elementary School, Cuyahoga County, Ohio, as of June 30, 2014, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2014, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.

Balestra, Harr & Scherer, CPAs

Balestra, Harr & Scherer, CPAs, Inc.

Piketon, Ohio

December 19, 2014

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, 2014. 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 2014 are as follows:

- Total assets were \$446,572.
- Total liabilities were \$120,803.
- Total net position decreased by \$103,302.

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 Position, a Statement of Revenues, Expenses and Change in Net Position, 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 Position and the Statement of Revenues, Expenses and Change in Net Position, 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 position – the difference between assets and liabilities, as reported in the Statement of Net Position – as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net position – as reported in the Statement of Revenues, Expenses and Change in Net Position – 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 Position and the Statement of Revenues, Expenses and Change in Net Position 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.

Table 1 provides a comparison of net position as of June 30, 2014 with net position as of June 30, 2013.

Table 1
Net Position

| | <u>2014</u> | <u>2013</u> |
|----------------------------------|---------------------------------|---------------------------------|
| <u>Assets</u> | | |
| Current and Other Assets | \$ 230,327 | \$ 295,403 |
| Capital Assets, Net | <u>216,245</u> | <u>256,937</u> |
| Total Assets | \$ 446,572 | \$ 552,340 |
| <u>Liabilities</u> | | |
| Current Liabilities | <u>\$ 120,803</u> | <u>\$ 123,269</u> |
| Total Liabilities | 120,803 | 123,269 |
| <u>Net Position</u> | | |
| Net Investment in Capital Assets | 216,245 | 256,937 |
| Unrestricted | <u>109,524</u> | <u>172,134</u> |
| Total Net Position | <u><u>\$ 325,769</u></u> | <u><u>\$ 429,071</u></u> |

Total assets decreased by \$105,768. This decrease is due mainly to a decrease in cash and cash equivalents of \$83,462. Capital assets decreased by \$40,692 due to current year depreciation of \$70,225 exceeding current year additions of \$29,533. Total liabilities decreased \$2,466. This decrease is due mainly to a decrease in accrued wages and benefits payable of \$5,263, which was offset by an increase in accounts payable in the amount of \$2,951.

Table 2 shows the changes in net position for the fiscal years 2014 and 2013.

Table 2

Statement of Revenues, Expenses and Change in Net Position

| | June 30, 2014 | June 30, 2013 |
|------------------------------------|--------------------------------|--------------------------------|
| OPERATING REVENUES: | | |
| Foundation payments | \$1,508,182 | \$1,558,391 |
| Food services | 0 | 95 |
| Classroom fees | 2,887 | 8,414 |
| Extracurricular activities | 5,095 | 2,460 |
| Other revenue | 25,509 | 15,359 |
| Total operating revenues | <u>1,541,673</u> | <u>1,584,719</u> |
| OPERATING EXPENSES: | | |
| Salaries | 895,600 | 927,971 |
| Fringe benefits | 254,565 | 238,176 |
| Purchased services | 618,635 | 631,459 |
| Materials and supplies | 105,490 | 117,812 |
| Depreciation | 70,225 | 74,827 |
| Miscellaneous | 70,757 | 67,889 |
| Total operating expenses | <u>2,015,272</u> | <u>2,058,134</u> |
| Operating loss | <u>(473,599)</u> | <u>(473,415)</u> |
| NON-OPERATING REVENUES: | | |
| Restricted grants in aid - federal | 347,251 | 401,440 |
| Restricted grants in aid - state | 23,046 | 6,585 |
| Donated management fee | 0 | 3,850 |
| Total non-operating revenues | <u>370,297</u> | <u>411,875</u> |
| Change in net position | (103,302) | (61,540) |
| Net position, beginning of year | <u>429,071</u> | <u>490,611</u> |
| Net position, end of year | <u><u>\$325,769</u></u> | <u><u>\$429,071</u></u> |

Foundation support and Federal grants decreased \$50,209 and \$54,189, respectively, primarily due to a decrease in enrollment. Salaries and benefits decreased \$15,982 and purchased services decreased \$12,824, also due to increased enrollment.

Foundation support is the primary support of the Academy, comprising 98% of operating revenue and 79% of total revenues. The Academy also received a significant portion of federal grants which represent 18% of total revenue. Salaries and benefits comprise the largest portion of operating expenses, representing 56% of total operating expenses. Purchased services also represent a large portion of operating expenses, or 30%. Net position decreased \$103,302 resulting from expenses in excess of revenues.

Capital Assets

At the end of fiscal year 2014 the Academy had \$413,345 invested in furniture and equipment, (\$216,245 net of accumulated depreciation). Table 3 shows fiscal year 2014:

Table 3
Capital Assets

| | Balance | | | Ending |
|--------------------------------|---------------------|-------------------|------------------|----------------------|
| | July 1, 2013 | Additions | Deletions | June 30, 2014 |
| Improvements | \$28,871 | \$0 | \$0 | \$28,871 |
| Equipment Instructional | 363,428 | 29,533 | (67,885) | 325,076 |
| Equipment Office | 75,522 | 0 | (16,124) | 59,398 |
| Total Fixed Assets | 467,821 | 29,533 | (84,009) | 413,345 |
| Less: Accumulated Depreciation | (210,884) | (70,225) | 84,009 | (197,100) |
| Net Fixed Assets | \$256,937 | (\$40,692) | \$0 | \$216,245 |

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 Rd. Cleveland, OH 44113.

Horizon Science Academy Denison Elementary School

Statement of Net Position

As of June 30, 2014

ASSETS:

Current Assets:

| | |
|------------------------------|---------------|
| Cash and cash equivalents | \$211,502 |
| Intergovernmental receivable | <u>18,825</u> |
| Total current assets | 230,327 |

Noncurrent Assets:

| | |
|--|----------------|
| Depreciable capital assets (net of accumulated depreciation) | <u>216,245</u> |
|--|----------------|

Total Assets **\$446,572**

LIABILITIES:

Current Liabilities:

| | |
|------------------------------------|----------------|
| Accounts payable | \$23,576 |
| Accrued wages and benefits payable | 83,049 |
| Payroll liabilities | <u>14,178</u> |
| Total current liabilities | <u>120,803</u> |

Total Liabilities 120,803

NET POSITION:

| | |
|----------------------------------|----------------|
| Net investment in capital assets | 216,245 |
| Unrestricted | <u>109,524</u> |

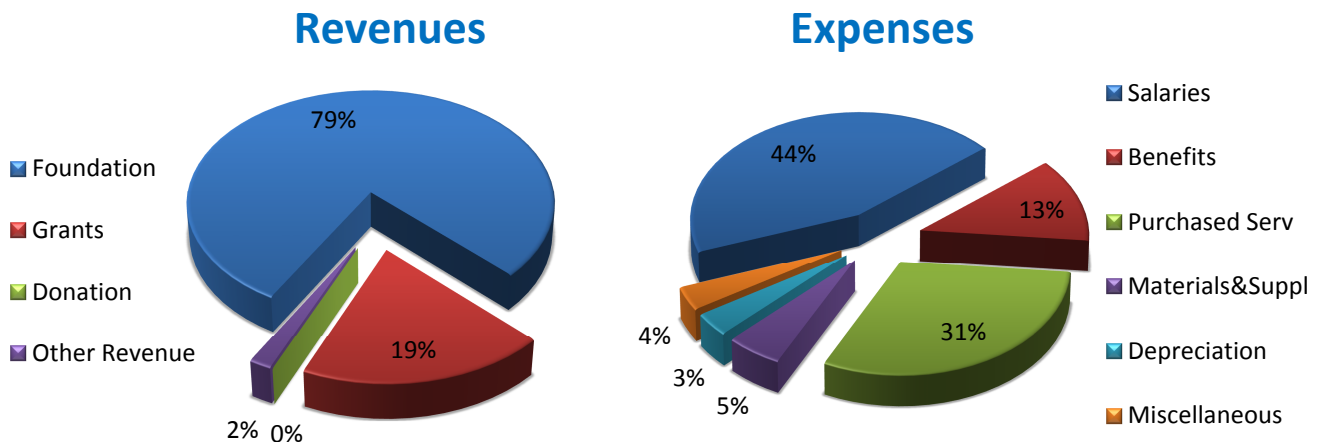
Total Net Position **\$325,769**

See accompanying notes to the basic financial statements.

Horizon Science Academy Denison Elementary School
 Statement of Revenues, Expenses and Change in Net Position
 For the Fiscal Year Ended June 30, 2014

| | |
|------------------------------------|--------------------------------|
| OPERATING REVENUES: | |
| Foundation payments | \$1,508,182 |
| Classroom fees | 2,887 |
| Extracurricular activities | 5,095 |
| Other revenue | <u>25,509</u> |
| Total operating revenues | <u>1,541,673</u> |
| OPERATING EXPENSES: | |
| Salaries | 895,600 |
| Fringe benefits | 254,565 |
| Purchased services | 618,635 |
| Materials and supplies | 105,490 |
| Depreciation | 70,225 |
| Miscellaneous | <u>70,757</u> |
| Total operating expenses | <u>2,015,272</u> |
| Operating loss | <u>(473,599)</u> |
| NON-OPERATING REVENUES: | |
| Restricted grants in aid - federal | 347,251 |
| Restricted grants in aid - state | <u>23,046</u> |
| Total non-operating revenues | <u>370,297</u> |
| Change in net position | (103,302) |
| Net position, beginning of year | <u>429,071</u> |
| Net position, end of year | <u><u>\$325,769</u></u> |

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, 2014

CASH FLOWS FROM OPERATING ACTIVITIES:

| | |
|--|------------------|
| Cash received from State of Ohio | \$1,489,796 |
| Cash received from other operating revenues | 33,491 |
| Cash payments to suppliers for goods and services | (721,174) |
| Cash payments to employees for services and benefits | (1,155,582) |
| Other cash payments | (70,757) |
| Net cash used for operating activities | <u>(424,226)</u> |

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

| | |
|--|----------------|
| Federal grants received | 347,251 |
| Other grants received | 23,046 |
| Net cash provided by noncapital financing activities | <u>370,297</u> |

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

| | |
|--|-----------------|
| Payment for capital acquisitions | (29,533) |
| Net cash used for capital and related financing activities | <u>(29,533)</u> |

| | |
|--|------------------|
| Net decrease in cash and cash equivalents | (83,462) |
| Cash and cash equivalents at beginning of year | 294,964 |
| Cash and cash equivalents at end of year | <u>\$211,502</u> |

RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES

| | |
|----------------|-------------|
| Operating loss | (\$473,599) |
|----------------|-------------|

ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES:

| | |
|--|---------------|
| Depreciation | 70,225 |
| Changes in Assets and Liabilities: | |
| Increase in accounts payable | 2,951 |
| Decrease in accrued wages and benefits payable | (5,263) |
| Increase in intergovernmental receivable | (18,386) |
| Decrease in payroll liabilities | (154) |
| Total adjustments | <u>49,373</u> |

| | |
|--|---------------------------|
| Net cash used for operating activities | <u><u>(\$424,226)</u></u> |
|--|---------------------------|

See accompanying notes to the basic financial statements.

1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

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

The 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 commencing March 24, 2008. In 2010, the original contract was extended until 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. In fiscal year 2014, the Academy employed 29 personnel for up to 196 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 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 Position; a Statement of Revenues, Expenses and Change in Net Position; 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 position, 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 Position. The Statement of Revenues, Expenses, and Change in Net Positions present increases (e.g., revenues) and decreases (e.g., expenses) in total net position. The Statement of Cash Flows provides information about how the Academy finances and meets the cash flow needs of its enterprise activities.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The full accrual basis of accounting is used for reporting purposes. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Revenues resulting from non-exchange transactions, in which the 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. Unearned 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 unearned revenue. Expenses are recognized at the time they are incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Total cash amount at the end of the fiscal year is presented as "Cash and cash equivalents" in the Statement of Net Position. For the purposes of the Statement of Cash Flows and for presentation on the Statement of Net Position, any investment with an original maturity date less than 90 days is considered a cash equivalent and any investment with a maturity date greater than 90 days is considered an investment. The Academy did not have any investments during fiscal year 2014.

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.

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

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

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 are recognized as operating revenues whereas revenues from the Federal CCIP Program, Special Education 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**H. Compensated Absences**

The Academy's policy indicates that all full time employees are entitled to eight days of sick/personal leave in a school year. Also, all employees who have worked for the Academy for a total of 210 days will be allowed up to nine days per year of paid sick or personal leave and those who have worked for the Academy for a total of 235 days will be allowed up to ten days per year of paid sick or personal leave. All leave earned by employees must be used within the current school year and cannot be transferred to the next school year, and therefore, are not recorded as a liability. The Academy compensates its employees \$125 per day for each unused sick/personal days at the end of the year.

I. Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation. Net position is 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 positions are available.

J. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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, 2014, the Academy's bank balance of \$245,596 was either covered by FDIC or collateralized by the financial institution's public entity deposit pool in the manner described below.

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

4. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

| | Capital Assets | | | |
|--------------------------------|---------------------------------|-------------------|------------------|---------------------------------|
| | Balance July 1, 2013 | Additions | Deletions | Ending June 30, 2014 |
| Improvements | \$28,871 | \$0 | \$0 | \$28,871 |
| Equipment Instructional | 363,428 | 29,533 | (67,885) | 325,076 |
| Equipment Office | 75,522 | 0 | (16,124) | 59,398 |
| Total Fixed Assets | 467,821 | 29,533 | (84,009) | 413,345 |
| Less: Accumulated Depreciation | (210,884) | (70,225) | 84,009 | (197,100) |
| Net Fixed Assets | \$256,937 | (\$40,692) | \$0 | \$216,245 |

5. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended up to statutory maximum amounts by the SERS' Retirement Board. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2014, the allocation to pension and death benefits was 13.10 percent. The remaining 0.90 percent of the 14 percent employer contribution rate is allocated to the Medicare B and Health Care funds. The Academy's contributions to SERS for the years ended June 30, 2014, 2013, and 2012 were \$12,408, \$11,820 and \$11,256 respectively, which equaled the required contributions each 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.

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 may transfer to a different STRS Ohio retirement plan during their fifth year of membership. Eligible members who do not make a choice during the reselection period will permanently remain in their current 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.

5. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

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.

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 14% for members and 14% for employers.

For the fiscal year ended June 30, 2014, plan members were required to contribute 11% of their annual covered salaries, for the fiscal years ended June 30, 2013, and 2012, plan members were required to contribute 10% of their annual covered salaries. For these fiscal years, the Academy was required to contribute 14%; 13% was the portion used to fund pension obligations. The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2014, 2013, and 2012 were \$139,049, \$99,840 and \$87,912 respectively; 100 percent has been contributed for fiscal years 2014, 2013, and 2012.

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 the STRS Ohio website at www.strsoh.org.

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, 2014, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages.

6. POSTEMPLOYMENT BENEFITS

A. State Teachers Retirement System

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 Chapter 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 the most recent year, pay a portion of the health care costs in the 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% employer contribution rate, 1% of covered payroll was allocated to post-employment health care for the years ended June 30, 2014, 2013, and 2012. The 14% employer contribution rate is the maximum rate established under Ohio law. For the Academy, these amounts equaled were \$9,932, \$7,131 and \$6,279 respectively. The full amount has been contributed for fiscal years 2014, 2013 and 2012.

B. 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.

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 2014 was \$104.90 for most participants, but could be as high as \$335.70 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 2014, the actuarially required allocation was .76%. The Academy's contributions for the years ended June 30, 2014, 2013 and 2012 were \$674, \$625, and \$603 respectively, which equaled the required contributions each 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.

6. POSTEMPLOYMENT BENEFITS (Continued)**B. School Employees Retirement System (Continued)**

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, 2014, the health care allocation is 0.14%. 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 2014, the minimum compensation level was established at \$20,250. 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 contributions assigned to health care for the years ended June 30, 2014, 2013, and 2012 were \$1,953, \$135, and \$3,345, respectively.

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.

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.

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 2014, 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 in any of the last three fiscal years.

B. Workers Compensation

The Academy pays the State Workers Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State. 100% of this premium was paid for fiscal year 2014.

8. EMPLOYEE MEDICAL AND DENTAL BENEFITS

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

9. PURCHASED SERVICES

Purchased service expenses during fiscal year 2014 were as follows:

| Purchased Services | |
|--------------------------------|-------------------|
| Type | Amount |
| Professional Services | \$ 384,351 |
| Rent and Property Services | 177,182 |
| Admin Travel | 5,691 |
| Advertising and Communications | 43,614 |
| Pupil Transportation | 7,797 |
| Total | \$ 618,635 |

10. NOTE RECEIVABLE

The following is a schedule of the note receivable activity during fiscal year 2014:

| Note Receivable | | | | |
|------------------------|------------------------|------------------|------------------|-------------------------|
| | Balance on 7/1/2013 | Additions | Deletions | Balance on 6/30/2014 |
| HSA Lorain | \$0 | \$175,000 | \$175,000 | \$0 |
| Total | \$0 | \$175,000 | \$175,000 | \$0 |

The Academy made an interest-free loan of \$175,000 to Horizon Science Academy Lorain during fiscal year 2014. This loan was repaid during fiscal year 2014.

11. OPERATING LEASES

The Academy entered into a one year lease agreement in fiscal year 2011 for the facilities on 2261 Columbus Rd, Cleveland, OH 44113 with St. Wendelin Parish, for the period of August 1, 2009 thru July 31, 2010. The agreement was renewed at the end of the contract period in one year increments through July 31, 2014. According to this agreement, payments totaled \$134,893 for fiscal year 2014.

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 2014, the Academy received grants from State and Federal agencies total of \$370,297.

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 Academy is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated.

13. 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 3% of its foundation revenues to the Sponsor. In fiscal year 2014, the Academy's compensation to the Sponsor was \$45,249.

14. MANAGEMENT COMPANY AGREEMENT

The Academy contracted with Concepts Schools, Inc. to serve as the Academy's management company. The contract is renewed automatically every year in one year terms unless the Academy or the management company decides otherwise. According to the contract, the Academy transfers 12% of the funds received from the State. In fiscal year 2014, the Academy paid \$182,238 to Concept Schools for management services. \$1,244 was over payment and is passed to the fiscal year 2015 as a management service fee payment.

15. RELATED PARTIES

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

16. CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2014, the Academy has implemented GASB Statement No. 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantees".

GASB Statement No. 70 improves the recognition, measurement, and disclosures for state and local governments that have extended or received financial guarantees that are non-exchange transactions. The implementation of GASB Statement No. 70 did not have an effect on the financial statements of the Academy.



Balestra, Harr & Scherer, CPAs, Inc.

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

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

Horizon Science Academy Denison Elementary School
Cuyahoga County
2261 Columbus Road
Cleveland, Ohio 44113

To the Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Horizon Science Academy Denison Elementary School, Cuyahoga County, Ohio (the Academy), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated December 19, 2014.

Internal Control over Financial Reporting

As part of our financial statement audit, we considered the Academy's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Academy's internal control. Accordingly, we have not opined on it.

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 a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Academy's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

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, opining 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*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Academy's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Balestra, Harr & Scherer, CPAs

Balestra, Harr & Scherer, CPAs, Inc.

Piketon, Ohio

December 19, 2014

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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
JUNE 30, 2015**