



Balestra, Harr & Scherer, CPAs, Inc.

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

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HORIZON SCIENCE ACADEMY OF TOLEDO
LUCAS 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 of Toledo
425 Jefferson Ave
Toledo, Ohio 43604-1060

We have reviewed the *Independent Auditor's Report* of the Horizon Science Academy of Toledo, Lucas 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 of Toledo 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 27, 2013

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**HORIZON SCIENCE ACADEMY OF TOLEDO
LUCAS COUNTY**

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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 of Education
Horizon Science Academy of Toledo
Lucas County
425 Jefferson Avenue
Toledo, Ohio 43604-1060

We have audited the accompanying financial statements of the business-type activities of the Horizon Science Academy of Toledo, Lucas County, (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 of Toledo, Lucas County, Ohio, as of June 30, 2012, and the changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 17 to the financial statements, the Academy has suffered recurring losses from operations and has a net asset deficiency. Note 17 describes management's plan regarding these matters. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 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 did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

Balestra, Harr & Scherer, CPAs

Balestra, Harr & Scherer, CPAs, Inc.
January 23, 2013

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

The discussion and analysis of Horizon Science Academy of Toledo'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 \$296,766.
- Total liabilities were \$511,297.
- Total net assets decreased \$301,431.

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

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

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

Horizon Science Academy of Toledo
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

	June 30, 2012	June 30, 2011
<u>Assets</u>		
Current and Other Assets	\$177,590	\$99,499
Capital Assets, Net	<u>119,176</u>	<u>107,852</u>
Total Assets	296,766	207,351
<u>Liabilities</u>		
Current Liabilities	510,834	117,221
Non-Current Liabilities	<u>463</u>	<u>3,230</u>
Total Liabilities	511,297	120,451
<u>Net Assets</u>		
Invested in Capital Assets	115,946	101,855
Unrestricted	<u>(330,477)</u>	<u>(14,955)</u>
Total Net Assets	<u><u>(\$214,531)</u></u>	<u><u>\$86,900</u></u>

Total assets increased by \$89,415. This increase is due mainly to an increase in cash and cash equivalents. Capital assets increased by \$11,324. This increase is due to capital asset additions outweighing depreciation in the current year. Total liabilities increased \$390,843. This increase is due mainly to an increase in accounts payable amount of \$179,370, an increase in notes payable amount of \$170,000, and an increase in intergovernmental payable of \$19,339.

Horizon Science Academy of Toledo
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

	<u>June 30, 2012</u>	<u>June 30, 2011*</u>
OPERATING REVENUES:		
Foundation payments	\$1,615,940	\$1,701,911
Food services	1,762	1,564
Classroom fees	5,873	9,034
Extracurricular activities	11,778	8,726
Other revenue	<u>15,699</u>	<u>10,451</u>
Total operating revenues	<u>1,651,052</u>	<u>1,731,686</u>
OPERATING EXPENSES:		
Salaries	1,168,478	1,161,460
Fringe benefits	346,586	313,810
Purchased services	882,704	692,305
Materials and supplies	98,417	129,374
Depreciation	46,063	36,736
Miscellaneous	<u>45,695</u>	<u>39,374</u>
Total operating expenses	<u>2,587,943</u>	<u>2,373,059</u>
Operating loss	<u>(936,891)</u>	<u>(641,373)</u>
NON-OPERATING REVENUES (EXPENSES):		
Interest expense	(341)	(532)
Restricted grants in aid - federal	477,996	537,980
Restricted grants in aid - state	1,621	7,379
Donated management fee	<u>156,184</u>	<u>1,460</u>
Total non-operating revenues (expenses)	<u>635,460</u>	<u>546,287</u>
Change in net assets	(301,431)	(95,086)
Net assets, beginning of year	<u>86,900</u>	<u>181,986</u>
Net assets, end of year	<u>(\$214,531)</u>	<u>\$86,900</u>

*Certain reclassifications were made that have no affect on net assets.

Foundation support and federal grant revenue decreased \$85,971 and \$59,984, respectively, primarily as a result of a decrease in student enrollment. The Academy also received in-kind support (donated management fee) in the amount of \$156,184 in 2012. Purchased services increased \$190,399 as a result of increased need for purchased services.

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

Foundation support is the primary support of the Academy, comprising 89% of operating revenue and 71% of total revenues. The Academy also received a significant portion of federal grants and in-kind contributions, which represent 21% and 1% of total revenue, respectively. Salaries and benefits comprise the largest portion of operating expenses, representing 59 % of total operating expenses. Purchased services also represent a large portion of operating expenses, or 34%. Net assets decreased \$301,431 resulting from expenses in excess of revenues.

Capital Assets

At the end of fiscal year 2012 the Academy had \$342,151, invested in furniture and equipment, and leasehold improvements (\$119,176 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	\$284,764	\$57,387	\$-	\$342,151
Less: Accumulated Depreciation	(176,912)	(46,063)	-	(222,975)
Net Fixed Assets	\$107,852	\$11,324	\$-	\$119,176

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

Contacting the School's Financial Management

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the 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 of Toledo, 425 Jefferson Avenue, Toledo, Ohio 43604-1060.

Horizon Science Academy of Toledo

Statement of Net Assets

As of June 30, 2012

ASSETS:

Current Assets:

Cash and cash equivalents	\$168,713
Intergovernmental receivable	8,877
Total current assets	<u>177,590</u>

Noncurrent Assets:

Depreciable capital assets (Net of Accumulated Depreciation)	<u>119,176</u>
Total assets	<u>\$296,766</u>

LIABILITIES:

Current Liabilities:

Accounts payable	\$190,213
Accrued wages and benefits payable	124,431
Intergovernmental payable	19,339
Payroll liabilities	4,084
Capital lease – current portion	2,767
Notes payable	<u>170,000</u>
Total current liabilities	<u>510,834</u>

Noncurrent Liabilities:

Capital lease – noncurrent portion	<u>463</u>
Total liabilities	<u>511,297</u>

NET ASSETS:

Invested in capital assets, net of related debt	115,946
Unrestricted (deficit)	<u>(330,477)</u>
Total net assets	<u>(\$214,531)</u>

See accompanying notes to the basic financial statements.

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

OPERATING REVENUES:	
Foundation payments	\$1,615,940
Food services	1,762
Classroom fees	5,873
Extracurricular activities	11,778
Other revenue	<u>15,699</u>
Total operating revenues	<u>1,651,052</u>
 OPERATING EXPENSES:	
Salaries	1,168,478
Fringe benefits	346,586
Purchased services	882,704
Materials and supplies	98,417
Depreciation	46,063
Miscellaneous	<u>45,695</u>
Total operating expenses	<u>2,587,943</u>
Operating loss	<u>(936,891)</u>
 NON-OPERATING REVENUES (EXPENSES):	
Interest expense	(341)
Restricted grants in aid - federal	477,996
Restricted grants in aid - state	1,621
Donated management fee	<u>156,184</u>
Total non-operating revenues (expenses)	<u>635,460</u>
Change in net assets	(301,431)
Net assets, beginning of year	<u>86,900</u>
Net assets, end of year	<u><u>(\$214,531)</u></u>

See accompanying notes to the basic financial statements.

Horizon Science Academy Toledo
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from State of Ohio	\$1,607,063
Cash received from other operating revenues	35,112
Cash payments to suppliers for goods and services	(645,567)
Cash payments to employees for services and benefits	(1,457,929)
Other cash payments	<u>(45,695)</u>
Net cash used for operating activities	<u>(507,016)</u>
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Federal grants received	477,996
State grants received	<u>1,621</u>
Net cash provided by noncapital financing activities	<u>479,617</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Issuance of notes payable	660,000
Payment of notes payable	(490,000)
Principal paid on capital lease payable	(2,767)
Interest paid on capital lease payable	(341)
Payment for capital acquisitions	<u>(57,387)</u>
Net cash provided by capital and related financing activities	<u>109,505</u>
Net increase in cash and cash equivalents	82,106
Cash and cash equivalents at beginning of year	<u>86,607</u>
Cash and cash equivalents at end of year	<u><u>\$168,713</u></u>
 RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES	
Operating loss	(\$936,891)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES:	
Depreciation	46,063
Donated management fee	156,184
Changes in Assets and Liabilities:	
Increase in intergovernmental receivable	(8,877)
Decrease in prepaid expenses	12,892
Increase in accounts payable	179,370
Increase in accrued wages and benefits payable	20,820
Increase in intergovernmental payable	19,339
Increase in payroll liabilities	<u>4,084</u>
Total adjustments	<u>429,875</u>
Net cash used for operating activities	<u><u>(\$507,016)</u></u>

See accompanying notes to the basic financial statements.

Horizon Science Academy of Toledo
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

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

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

The Academy was approved for operation under contract with the Lucas County Educational Service Center (the Sponsor) for a period of five years commencing March 11, 2004. On March 9, 2010, the contract was extended through June 30, 2012. On April 21, 2012, the contract was extended for another year through June 30, 2013.

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 34 full and part time personnel who provide services to up to 250 students during the year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

The Academy's basic financial statements consist of a statement of net assets; a statement of revenues, expenses and change in net assets; and a statement of cash flows.

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

B. Measurement Focus and Basis of Accounting

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

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 of one thousand dollars. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Improvements are capitalized. The Academy does not capitalize interest.

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

	<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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Intergovernmental Revenues

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

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

G. Operating Revenues and Expenses

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

H. Compensated Absences

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

I. Net Assets

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

J. Estimates

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

3. DEPOSITS

As of June 30, 2012, the Academy's bank balance of \$180,947 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.

Horizon Science Academy of Toledo
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

4. CAPITAL ASSETS

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

Capital Assets				
	Balance	Additions	Deletions	Ending
	July 1, 2011			June 30, 2012
Furniture and Equipment	\$284,764	\$57,387	\$-	\$342,151
Less: Accumulated Depreciation	(176,912)	(46,063)	-	(222,975)
Net Capital Assets	\$107,852	\$11,324	\$-	\$119,176

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 \$18,120, \$15,660 and \$20,172, 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 will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

5. DEFINED BENEFIT PENSION PLANS (Continued)

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

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

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

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.

5. DEFINED BENEFIT PENSION PLANS (Continued)

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

For the fiscal years ended June 30, 2012, 2011, and 2010, plan members were required to contribute 10 percent of their annual covered salaries. For these fiscal years, the Academy was required to contribute 14 percent; 13 percent 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, 2012, 2011, and 2010 were \$142,942, \$148,902, and \$133,728, respectively; 100% has been contributed for fiscal years 2012, 2011 and 2010.

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.

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 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 percent employer contribution rate, 1 percent of covered payroll was allocated to post-employment health care for the years ended June 30, 2012, 2011 and 2010. The 14 percent employer contribution rate is the maximum rate established under Ohio law. For the Academy, these amounts equaled \$10,203, \$10,636, and \$9,552, for fiscal years 2012, 2011, and 2010, respectively; which equaled the required contributions each year.

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.

6. POSTEMPLOYMENT BENEFITS (Continued)

Medicare Part B Plan

The Medicare Part B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2012 was \$99.90 for most participants, but could be as high as \$319.70 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 2012, the actuarially required allocation is .75%. The Academy's contributions for the years ended June 30, 2012, 2011 and 2010 were \$971, \$850 and \$1,081, 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.

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, 2012, the health care allocation is .55%. 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 2012, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. For the Academy contributions assigned to health care for the years ended June 30, 2012, 2011, and 2010 were \$1,829, \$1,600, and \$5,994, respectively; which equaled the required contributions each year.

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

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.

Horizon Science Academy of Toledo
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 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 2012.

8. EMPLOYEE MEDICAL AND DENTAL BENEFITS

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

9. PURCHASED SERVICES

Purchased service expenses during fiscal year 2012 were as follows:

<u>Type</u>	<u>Amount</u>
Professional Services	\$ 453,672
Rent and Property Services	299,967
Admin Travel	5,622
Advertising and Communications	24,605
Pupil Transportation	98,838
Total	<u>\$ 882,704</u>

10. OPERATING LEASES

The Academy entered into a sub-lease for a building facility for the period July 1, 2004 through June 30, 2009 with Concept Schools. On February 28, 2007, Concept Schools transferred the lease to the landlord, Zaleski Secor LLC. In June, 2009, The Academy renewed its lease agreement with Zaleski Secor LLC. The term of the lease is for five (5) years beginning on July1, 2009 and ending on June 30, 2014. During fiscal year 2012, payments made to Zaleski Secor LLC totaled \$276,000. Monthly rent is \$23,000 for fiscal year 2012.

The following is a schedule of the future payments required under the operating lease as of June 30, 2012:

<u>Fiscal Year Ending June 30,</u>	<u>Facility Lease</u>
2013	\$288,000
2014	294,000
Total minimum lease payments	<u>\$582,000</u>

Horizon Science Academy of Toledo
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

11. CAPITALIZED LEASE – LESSEE DISCLOSURE

The Academy entered into a capital lease in August, 2008 for a color copier. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, “Accounting for Leases,” which defines a capital lease generally as one which transfers benefits and risk of ownership to the lessee. The capital lease was recorded at the present value of the future minimum lease payments as of the inception date. Principal payments made during fiscal year 2012 total \$2,767.

The following is a schedule of the future minimum lease payments required under the capital lease as of June 30, 2012.

Fiscal Year Ending June 30,	
2013	\$3,108
2014	259
Minimum Lease Payments	3,367
Less: Amount representing interest at the Academy’s incremental borrowing rate of interest	(137)
Present Value of Minimum Lease Payments	\$3,230

12. NOTES PAYABLE

The Academy issued notes payable during the year to help cover operating costs. Note payable activity during 2012 is as follows:

Note Payable	Balance July 1, 2011	Issuances	Payments	Balance June 30, 2012
Breeze, Inc.	\$-	\$610,000	\$490,000	\$120,000
HSA Toledo Downtown	-	50,000	-	50,000
Total	\$-	\$660,000	\$490,000	\$170,000

The Academy received short term promissory notes from Breeze Inc. and Horizon Science Academy Toledo Downtown throughout fiscal year 2012 to cover general operating expenses. On December 13, 2011, the Academy received a \$170,000 loan at an interest rate of 0% from Breeze Inc. The Academy repaid this entire amount in January 2012. On March 13, 2012, the Academy received a \$220,000 loan at an interest rate of 0% from Breeze Inc. The Academy repaid this entire amount in March and April 2012. On May 21, 2012, the Academy received a \$50,000 loan at an interest rate of 0% from Horizon Science Academy Toledo Downtown. As of June 30, 2012, the entire balance was still outstanding. On June 14, 2012, the Academy received a \$220,000 loan at an interest rate of 0% from Breeze Inc. As of June 30, 2012, the Academy still had an outstanding balance of \$120,000.

13. CONTINGENCIES

A. Grants

The Auditor of State is currently performing a statewide review of supporting documentation for 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 \$479,617.

13. CONTINGENCIES (Continued)

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 as of June 30, 2012, the Academy was overpaid \$1,632. This amount is included in Intergovernmental Payable on the Statement of Net Assets.

14. SPONSORSHIP AGREEMENT

On July 1, 2004, Lucas County Educational Service Center 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. On April 21, 2012 the contract was extended until June 30, 2013. According to the contract, the Academy pays 1.5% of its foundation revenues to the Sponsor. In fiscal year 2012, the Academy's compensation to the Sponsor was \$24,776.

15. MANAGEMENT COMPANY AGREEMENT

In October 2004, 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 which amounted to \$198,074. In fiscal year 2012, the Academy paid \$41,890 to Concept Schools for management services, \$156,184 were forgiven by Concept Schools, and are reflected in the statement of revenues, expenses and change in net assets as donated management fee.

16. 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. One of the Board members owns a restaurant and the Academy purchased non contractual food services in the amount of \$2,424 during fiscal year 2012.

The Academy received various short term notes from Horizon Science Academy Toledo Downtown and Breeze Inc. with whom they previously had entered into a lease agreement with for the facility rental.

17. MANAGEMENT PLAN

The Academy's recent cash flow challenges have been due primarily to a reduction in enrollment and an increase in non-teaching staff.

As a result, management has implemented the following plan to ensure the Academy's long-term financial viability:

- Change the location of the Academy;
- Increase enrollment by now serving grades K-12.



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 of Education
Horizon Science Academy of Toledo
Lucas County
425 Jefferson Avenue
Toledo, Ohio 43604-1060

We have audited the financial statements of the business-type activities of the Horizon Science Academy of Toledo, Lucas County, Ohio (the Academy), as of and for the year ended June 30, 2012, and have issued our report thereon dated January 23, 2013, wherein we noted the Academy suffered recurring losses from operations and has a net asset deficiency. 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.

Members of the Board of Education
Horizon Science Academy of Toledo
Lucas County
Report on Internal Control Over Financial Reporting and on Compliance
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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 23, 2013



Dave Yost • Auditor of State

HORIZON SCIENCE ACADEMY OF TOLEDO

LUCAS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
APRIL 9, 2013