



Mary Taylor, CPA
Auditor of State

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Horizon Science Academy of Cleveland
Cuyahoga County
6000 South Marginal Road
Cleveland, Ohio 44103

To the Board of Directors:

We have audited the accompanying basic financial statements of the Horizon Science Academy of Cleveland, Cuyahoga County, Ohio, (the Academy) as of and for the year ended June 30, 2006, 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 Horizon Science Academy of Cleveland, Cuyahoga County, Ohio, as of June 30, 2006, and the changes in financial position and its cash flows for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2010, 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.

Management's Discussion and Analysis is not a required part of the financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

September 21, 2010

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

Management's Discussion and Analysis
For the Year Ended June 30, 2006
Unaudited

The discussion and analysis of Horizon Science Academy of Cleveland (HSAC) provides an overall review of the School's financial activities for the fiscal year ended June 30, 2006. The intent of the discussion and analysis is to look at HSAC's financial performance as a whole: readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of HSAC's financial performance.

Financial Highlights

Key financial highlights affecting 2006 are as follows:

Total assets decreased by \$3,387,574, which represents a 66 percent decrease from 2005. This decrease is due to an increase in receivables of \$537,731 and a decrease in cash of \$349,536 and capital assets of \$3,575,769. The receivable includes funds loaned to another charter schools. The decrease in capital assets is due to the sale of the building and improvements.

Liabilities decreased \$2,270,830, which represents a 70 percent decrease from 2005. The mortgage note relating to the building sold accounted for the majority of the decrease.

Total Operating Revenues totaled \$2,722,871.

Operating expenses increased by \$260,041, which represents an 8 percent increase from 2005. Operating expense increases are due to an increase in the administrative salaries, and lease back of the building sold.

Using this Financial Report

This annual report consists of financial statements and notes to those statements. These statements are organized so the reader can understand HSAC as a financial whole.

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets provide information about the activities of HSAC.

Statement of Net Assets and Statements of Revenues, Expenses and Changes in Net Assets

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets answer the question, "How did we do financially during 2006?" These statements include all assets and liabilities using the accrual basis of accounting. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received.

These statements report HSAC's net assets and the change in those assets. Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

Management's Discussion and Analysis
For the Year Ended June 30, 2006
Unaudited
(Continued)

School-wide financial analysis

Table 1 provides a summary of HSAC's net assets as of June 30, 2006 and 2005.

**Table 1
NET ASSETS**

<u>Assets:</u>	<u>June 30, 2006</u>	<u>June 30, 2005</u>
<u>Current Assets:</u>		
Cash and Cash equivalents	\$ 14,120	\$ 363,656
Receivables	733,596	195,865
Total Current Assets	<u>747,716</u>	<u>559,521</u>
<u>Non-Current Assets:</u>		
Capital Assets (Net of Accumulated Depreciation)	<u>970,935</u>	<u>4,546,704</u>
Total Assets	<u>1,718,651</u>	<u>5,106,225</u>
<u>Liabilities and Equity:</u>		
<u>Current Liabilities:</u>		
Accounts Payable	6,612	25,513
Intergovern. Payable	15,491	0
Accrued Payroll	211,115	144,609
Interest Payable	0	20,878
Total Current Liabilities	<u>233,218</u>	<u>191,000</u>
<u>Long Term Liabilities</u>		
Capital Lease Payable	0	1,230
Mortgage Note Payable	<u>743,837</u>	<u>3,055,655</u>
Total Long Term Liabilities	<u>743,837</u>	<u>3,056,885</u>
Total Liabilities	<u>977,055</u>	<u>3,247,885</u>
<u>Net Assets</u>		
Investment in Capital Assets, net of related debt	227,098	1,489,819
Unrestricted	<u>183,014</u>	<u>368,521</u>
Total Net Assets	<u>\$ 410,112</u>	<u>\$1,858,340</u>

In the case of HSAC, capital assets (net of accumulated depreciation) comprise 56% of total assets. The decline is due to the sale of buildings and land.

Receivables increased \$537,731 from two loans to other charter schools and the balance due of \$196,164 relating to the sale of the building and land.

Total Liabilities of \$977,055 decreased by \$2,270,830 from the elimination of the mortgage relating to the building sold.

Total net assets totaled \$410,112 and decreased \$1,448,228.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

Management's Discussion and Analysis
For the Year Ended June 30, 2006
Unaudited
(Continued)

Table 2 shows the changes in net assets for the years ended June 30, 2006 and 2005.

**Table 2
Revenues, Expenses and Changes in Net Assets**

	FOR THE YEAR ENDED	
	<u>June 30, 2006</u>	<u>June 30, 2005</u>
<u>Operating Revenues:</u>		
Foundation Payments	\$ 2,503,109	\$ 2,934,369
Other Operating Revenue	219,762	122,963
	<hr/>	<hr/>
Total Operating Revenue	2,722,871	3,057,332
	<hr/>	<hr/>
<u>Operating Expenses:</u>		
Salaries	1,908,028	1,503,803
Fringe Benefits	220,491	269,862
Purchased Services	943,652	658,491
Materials and Supplies	132,982	198,955
Depreciation	90,061	128,933
Interest Expense	23,939	266,049
Other Operating Expenses	49,069	82,088
	<hr/>	<hr/>
<i>Total Operating Expenses</i>	3,368,222	3,108,181
	<hr/>	<hr/>
Operating Income	(645,351)	(50,849)
	<hr/>	<hr/>
<u>Non-Operating Revenues</u>		
Federal and State Grants	341,840	95,893
Private Grants and Contributions	2,917	66
Investment Earnings	25,340	2,865
Loss from Sale of Assets	(1,172,974)	0
Rental Income	0	120,000
	<hr/>	<hr/>
Total Non-Operating Revenues	(802,877)	218,824
	<hr/>	<hr/>
<u>Net Assets</u>		
Net Increase in Net Assets	(1,448,228)	167,975
	<hr/>	<hr/>
Total Net Assets at Beginning of Year	1,858,340	1,690,365
	<hr/>	<hr/>
Total Net Assets at End of Year	\$ 410,112	\$ 1,858,340
	<hr/> <hr/>	<hr/> <hr/>

Foundation payments accounted for 92% of the Operating Revenues. Community school foundation payments are received from the Ohio Department of Education (ODE) based on various student enrollment data submitted to ODE throughout the school year.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

Management's Discussion and Analysis
For the Year Ended June 30, 2006
Unaudited
(Continued)

Operating expenses for 2006 totaled \$3,368,222, which represents an increase of \$260,041 over the prior year. The majority of the increase is in salaries and professional fees, primarily as a result of entering into a management contract \$307,591, and are offset by a reduction in depreciation.

Table 3 reflects capital assets, net of accumulated depreciation, as of June 30, 2006 and 2005.

**Table 3
Capital Assets (Net of Accumulated Depreciation)**

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Building and Improvements	\$ 803,071	\$ 4,472,741
Furniture and Equipment	148,632	32,778
Capitalized Leases	0	16,373
School Buses	19,232	24,812
Total	<u>\$970,935</u>	<u>\$4,546,704</u>

HSAC's investment in capital assets for its activities as of June 30, 2006 amount to \$970,935. This is a decrease of \$3,575,769 compared to 2005 due to the sale of the permanent building and land.

Contacting HSAC's Financial Management

The financial report is designed to provide all interested parties with a general overview of HSAC's finances. If you have any questions about this report or need additional information, contact HSAC's Treasurer, Aman Gurdov, at Horizon Science Academy of Cleveland, 6000 South Marginal Road, Cleveland, Ohio 44103.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2006

Assets:

Current assets:

Cash and cash equivalents	\$ 14,120
Receivables:	
Accounts	733,596
Total current assets	<u>747,716</u>

Non-current assets:

Capital assets, net	970,935
Total non-current assets	<u>970,935</u>

Total assets	<u>1,718,651</u>
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Liabilities:

Current liabilities:

Accounts payable	6,612
Accrued payroll	211,115
Intergovernmental payable	15,491
Total current liabilities	<u>233,218</u>

Long term liabilities:

Mortgage Notes Payable	743,837
Total long term liabilities	<u>743,837</u>

Total liabilities	<u>977,055</u>
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Net Assets:

Invested in capital assets, net of related debt	227,098
Unrestricted	183,014
Total net assets	<u>\$ 410,112</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Operating revenues:	
State foundation	\$ 2,503,109
Other operating revenue	219,762
Total operating revenue	<u>2,722,871</u>
Operating expenses:	
Salaries and wages	1,908,028
Fringe benefits	220,491
Purchased services	943,652
Materials and supplies	132,982
Depreciation	90,061
Capital Outlay	23,939
Other	49,069
Total operating expenses	<u>3,368,222</u>
Operating loss	<u>(645,351)</u>
Non-operating revenues:	
Federal and State grants	341,840
Contributions and donations	2,917
Interest income	25,340
Loss from Sale of Assets	<u>(1,172,974)</u>
Total non-operating revenues	<u>(802,877)</u>
Change in net assets	(1,448,228)
Net assets at beginning of year	<u>1,858,340</u>
Net assets at end of year	<u><u>\$ 410,112</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Horizon Science Academy of Cleveland
Cuyahoga County

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2006

Increase/(Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$ 2,503,109
Cash Payments to Suppliers for Goods and Services	(1,414,413)
Cash Payments for Materials and Supplies	(1,821,530)
Cash Payments for Other Expenses	<u>219,762</u>
Net Cash Provided by/(Used for) Operating Activities	<u>(513,072)</u>

Cash Flows from Noncapital Financing Activities:

Operating Grants Received - Federal	<u>625,277</u>
Net Cash Provided by/(Used for) Noncapital Financing Activities	<u>625,277</u>

Cash Flows from Capital and Related Financing Activities:

Payments for Capital Acquisitions	(364,781)
Mortgage Loan Proceeds	261,000
Payments for Capital Leases	(1,230)
Proceeds from Sales of Assets	2,504,087
Payments for Mortgages	<u>(2,572,818)</u>
Net Cash Provided by/(Used for) Capital and Related Financing Activities	<u>(173,742)</u>

Cash Flows from Investing Activities:

Cash Received from Interest Earned Investments (loans)	17,153
Cash Paid to Charter Schools (Investments, loans)	(350,000)
Cash Received from Charter Schools (Investments, loans)	<u>44,848</u>
Net Cash Provided by/(Used for) Investing Activities	<u>(287,999)</u>

Net Increase/(Decrease) in Cash and Cash Equivalents	(349,536)
Cash and Cash Equivalents at Beginning of Year	<u>363,656</u>
Cash and Cash Equivalents at End of Year	<u>\$ 14,120</u>

Reconciliation of Operating Income/(Loss)
to Net Cash Provided by/(Used for) Operating Activities:

Operating Income/(Loss)	\$ (645,351)
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Adjustments to Reconcile Operating Income/(Loss)
to Net Cash Provided by/(Used for) Operating Activities:

Depreciation	90,061
Changes in Assets and Liabilities:	
Increase/(Decrease) in Accounts Payable	(18,901)
Increase/(Decrease) in Accrued Wages Payable	66,506
Increase/(Decrease) in Accrued Expenses	(20,878)
Increase/(Decrease) in Intergovernmental Payable	<u>15,491</u>
Net Cash Provided by/(Used for) Operating Activities	<u>\$ (513,072)</u>

See Accompanying Notes to the Basic Financial Statements

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**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 1 - DESCRIPTION OF THE SCHOOL

Horizon Educational Services Incorporated (HESI) is a nonprofit corporation established January 26, 1999, pursuant to Ohio Revised Code Chapter 1702. HESI created the Horizon Science Academy of Cleveland (HSAC) as permitted under Ohio Revised Code Chapter 3314 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service that qualifies as a tax exempt organization under § 501(c)(3) status by the Internal Revenue Service exclusively for educational purposes. These purposes include the fostering of quality public education, and the advancement of the interests of public school students through the operation of a community school, the development of innovative programs in public education and the development of systems of accountability for public school student performance. Management is not aware of any course of action or series of events that have occurred that might adversely affect the HSAC's tax-exempt status. HSAC, which is part of Ohio's education program, is independent of any school district. HSAC may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of HSAC.

A proposal was initially forwarded to the Ohio Department of Education (ODE) by HSAC during June 1999 to open a community school in the fall of 1999. The ODE approved the proposal and entered into a five-year contract with HSAC for the commencement of operation at the beginning of the 1999-2000 school year. The contract was renewed in 2004 with ODE for a five-year period commencing July 1, 2004. Effective July 1, 2005, HSAC entered into a five-year sponsorship contract with Lucas County Educational Service Center.

The School operates under a 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 HSAC's instructional facility staffed by five uncertified and forty-four certificated full time teaching personnel who provide services to 430 students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of HSAC 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. HSAC 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. HSAC does not apply FASB statements issued after November 30, 1989. The more significant of the HSAC's accounting policies are described below.

A. Basis of Presentation

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

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

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 HSAC are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Net Assets presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The Statement of Cash Flows provides information about how HSAC's 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 HSAC 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

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705; rather community schools are required to create a Five Year Budget Forecast that is approved by the School Board and submitted to ODE and to the School's Sponsor. The contract between the HSAC and its Sponsor does not prescribe any other budgetary process for the HSAC.

D. Cash

All monies received by HSAC are deposited in demand deposit accounts in the name of HSAC.

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 value as of the date received. HSAC maintained a capitalization threshold of one thousand dollars for inventory assets and ten thousand dollars for fixtures and improvements. 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. HSAC does not capitalize interest.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Capital Assets and Depreciation (Continued)

Furniture, fixtures, vehicles 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>Capital Asset Classification</u>	<u>Useful Life</u>
Building & leasehold improvements	39 years
Classroom Materials and Furniture	5 to 10 years
Computer and Other Equipment	3 to 5 years
Vehicles	3 to 10 years

F. Net Assets

Net Assets represent the difference between asset and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by HSAC or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. HSAC presently has no restricted net assets.

G. Intergovernmental Revenue

HSAC currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid Program ("DPIA"). Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Grants and entitlements are recognized as non-operating revenue in the accounting period in which all eligibility requirements have been met.

Eligibility includes 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 HSAC must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to HSAC on a reimbursement basis.

H. Compensated Absences

Vacation for teaching staff is to be taken in a manner that corresponds with the school calendar; therefore, HSAC does not accrue vacation time as a liability.

Full time non-teaching staff accruals sick leave during the year and is paid in July of each year for leave not used. The yearend accrual is included in accrued payroll.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

I. Private Donations Intergovernmental Revenue

HSAC has received funds from individuals to support HSAC's education programs.

J. Estimates

The preparation of basic 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.

NOTE 3 - DEPOSITS AND INVESTMENTS

At June 30, 2006, the carrying amount of HSAC deposits was \$14,120 and the bank balance was \$44,928. All the bank balance is covered by Federal Deposit Insurance Corporation.

NOTE 4 - RECEIVABLES

In March 2005, a loan for \$200,000, at a six percent interest rate, was made to the Horizon Science Academy – Toledo. The original loan was comprised of twelve payments with the final payment due in March 2006. As of June 30, 2006, five payments have been made and the balance outstanding was \$139,184.

In August 2005, a loan for \$250,000, at a 6.5 percent interest rate, was made to the Horizon Science Academy – Denison. As of June 30, 2006, one payment had been received and the principal balance outstanding was \$248,833.

In January 2006, a loan for \$100,000 at a 6.5 percent interest rate was made to the Horizon Science Academy – Cincinnati. As of June 30, 2006 no payments have been received.

HSAC had receivables from the State of Ohio for grant expenditures and the bank for refinancing the mortgage in the amount of \$49,415.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 5 - CAPITAL ASSETS

A summary of HSAC's capital assets at June 30, 2006, follows:

	Balance 06/30/05	Additions	Deductions	Balance 06/30/06
Capital Assets:				
Building and Improvements	\$ 4,972,993	\$ 261,000	\$ 4,411,993	\$ 822,000
Furniture, fixtures and equipment	84,316	129,120	-	213,436
School Buses	28,672	-	2,848	25,824
Total capital assets	<u>5,085,981</u>	<u>390,120</u>	<u>4,414,841</u>	<u>1,061,260</u>
Less: accumulated depreciation				
Building and Improvements	(500,252)	(64,865)	(546,188)	(18,929)
Furniture, fixtures and equipment	(35,165)	(29,639)	-	(64,804)
School Buses	(3,860)	(4,152)	(1,420)	(6,592)
Total accumulated depreciation	<u>(539,277)</u>	<u>(98,656)</u>	<u>(547,608)</u>	<u>(90,325)</u>
Total capital assets, Net of accumulated depreciation	<u>\$ 4,546,704</u>	<u>\$ 291,464</u>	<u>\$ 3,867,233</u>	<u>\$ 970,935</u>

NOTE 6 - PURCHASED SERVICES

For the fiscal year ended June 30, 2006, purchased service expenses were payments for services rendered by various vendors, and are as follows:

Management Fees	\$ 307,591
Building Rental	133,000
Building & Equipment Maintenance	169,736
Professional Services	81,326
Pupil Support Services	40,454
Utilities and Telepone	77,657
Other	133,888
Total	<u>\$ 943,652</u>

NOTE 7 - CONTINGENCIES

A. Grants

HSAC received financial assistance from State agencies in the form of grants. The expense 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. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of HSAC at June 30, 2006.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 7 – 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 School. These reviews are conducted to ensure the Community School is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. According to the review of Fiscal Year 2006, HSAC does not have any related liability.

NOTE 8 - PENSION PLANS

A. School Employees Retirement System

HSAC contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by 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 may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at www.ohsers.org.

Plan members are required to contribute 10 percent of their annual covered salary and HSAC is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the HSAC's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. HSAC's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$12,800, \$14,441, and \$8,080, respectively; 100 percent has been contributed for period ending June 30, 2006.

B. State Teachers Retirement System of Ohio

HSAC participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 8 - PENSION PLANS (Continued)

B. State Teachers Retirement System of Ohio (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one-time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. HSAC was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004 were \$182,475, \$177,719 and \$163,311, respectively; 100 percent for fiscal years 2006, 2005 and 2004.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 9 - POSTEMPLOYMENT BENEFITS

HSAC provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the systems based on authority granted by state statute. Both systems are on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For HSAC, this amount equaled \$14,037 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, the balance in the Fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS Ohio were \$282,743,000 and STRS Ohio had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For HSAC, the amount contributed to fund health care benefits, including the surcharge, during the 2006 period equaled \$4,138.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2006 were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants eligible to receive health care benefits.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 10 - RISK MANAGEMENT

A. Property and Liability

HSAC 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. For fiscal year 2006, HSAC contracted with Great American Insurance Company for all of its insurance.

The building, furniture and equipment have a \$4,100,000 limit, the liability insurance has a \$1,000,000 single occurrence limit and \$2,000,000 annual aggregate and no deductible, and the professional liability has a \$1,000,000 single occurrence limit and \$2,000,000 aggregate and a \$1,000 deductible.

B. Workers' Compensation

HSAC makes premium payments to the Ohio Workers' Compensation System (WC) for employee injury coverage. As of June 30, 2006, there have been no claims filed by employees with WC for the year ending June 30, 2006.

C. Employees Medical, Dental, Vision, Life and Disability Benefits

HSAC contracted Medical Mutual through COSE to provide employee medical/surgical benefits. During the 2006 fiscal year, the cost to HSCA for medical and dental insurance benefits, net of employee contributions, was \$67,416.

NOTE 11 – BUILDING SALE AND LEASE BACK

Horizon Science Academy of Cleveland (HSAC) entered into capital lease on November 30, 2000 to purchase a parcel of land containing two buildings. On November 30, 2005, an agreement was made with Breeze Inc. whereby the land contract was assigned to Breeze, Inc. The purchase price was \$2,700,000 of which \$2,508,836 was paid the current owner as payment in full of the balloon payment per the original agreement. The balance due to HSAC of \$196,164 is a non interest bearing receivable due no later than December 30, 2006.

The future minimum rental payments are:

Fiscal Year ending	June 30, 2007	\$	228,000
	June 30, 2008		228,000
	June 30, 2009		<u>228,000</u>
Total		\$	<u>684,000</u>

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 12 – MANAGEMENT COMPANY AGREEMENT

A management agreement was entered into on January 1, 2005 with Concept Schools (CS), an Illinois non-profit corporation. The services to be provided include, but are not limited to, human resources, board development, strategic planning, technology support, facility management, curriculum development, and purchasing services. The contract is for one year and will renew automatically until terminated by either party. The fees for the above services are 12 percent of the fees received from the state. For the fiscal year 2006 the School paid \$303,309 to Concept Schools for Management services.

NOTE 13 – SPONSORSHIP AGREEMENT

On November 19, 2004, Lucas County Educational Service Center assumed responsibility for sponsorship of the HSAC. The Sponsor is responsible for evaluating the performance of HSAC and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. According to a contract agreed by both parties, HSAC pays 1 percent of its foundation revenues to the Sponsor. In fiscal year 2006, HSAC's compensation to the Sponsor was \$23,449.



Mary Taylor, CPA

Auditor of State

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

Horizon Science Academy of Cleveland
Cuyahoga County
6000 South Marginal Road
Cleveland, Ohio 44103

To the Board of Directors:

We have audited the basic financial statements of the Horizon Science Academy of Cleveland, Cuyahoga County, Ohio, (the Academy) as of and for the year ended June 30, 2006, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated September 21, 2010. 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 to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Academy's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2006-002 and 2006-003.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider both reportable conditions listed above to be material weaknesses. In a separate letter to the Academy's management dated September 21, 2010, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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 an instance of noncompliance or other matter that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2006-001.

The Academy's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Academy's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of management, the Board of Directors, and the Academy's sponsor. It is not intended for anyone other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

September 21, 2010

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER	2006-001
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Findings for Recovery Repaid under Audit

State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951), provides that expenditures made by a governmental unit should serve a public purpose. Typically the determination of what constitutes a “proper public purpose” rests with the judgment of the governmental entity, unless such determination is arbitrary or unreasonable. Even if a purchase is reasonable, Ohio Attorney General Opinion 82-006 indicates that it must be memorialized by a duly enacted ordinance or resolution and may have a prospective effect only. Auditor of State Bulletin 2003-005 Expenditure of Public Funds/Proper “Public Purpose” states that the Auditor of State’s Office will only question expenditures where the legislative determination of a public purpose is manifestly arbitrary and incorrect.

On August 11, 2005, check number 8328 in the amount of \$9,900 payable to Concept Schools. Included in this payment was \$595 to pay for the Immigration and Naturalization Service fees (INS fees) for family members of Hizir Disli, an employee at Horizon Science Academy of Cleveland (the Academy). The payment of INS fees for family members of school employees is not a proper public purpose. As such, the payment of the INS fees in this instance was improper.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended may be issued against Hizir Disli, school employee, in the amount of \$595 and in favor of the Horizon Science Academy of Cleveland.

We brought this matter to the Academy’s attention. On August 4, Concepts Schools issued a letter to forgive the payment of \$595 in management fees.

Official’s Response:

These funds have already been repaid in the form of a \$595 credit issued by Concept Schools against management fees.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER	2006-002
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Developing and Implementing an Effective Monitoring Control System

Monitoring controls are comprised of regular management and supervisory activities established to oversee whether management's objectives are being achieved. Effective monitoring controls should assist management in assessing the quality of internal control performance over time. This process involves assessing the design and operation of controls on a timely basis and taking necessary corrective actions. Monitoring controls should assist management in identifying unexpected results and/or possible misstatements.

Some effective monitoring controls include:

- Review of revenues and expenses with independently accumulated information (budgets, past performances, peer group representatives, etc.);
- Review of the initial budget, all amendments, and final budget to actual performance;
- Review of large or unusual transactions;
- Identification of unusual fluctuations;
- Comparison of predefined key performance indicators based on the financial statements;
- Review of items which have been outstanding for extended periods of time (outstanding check listing for payroll and non payroll transactions);
- Monitoring compliance with grant agreements and the Sponsor contract;
- Ensuring that an adequate segregation of duties exists; and
- Review payroll reports to the payroll checks prepared.

The lack of effective monitoring controls could lead to the misallocation or misstatement of Academy funds, expenditure of funds contrary to the directives of the governing board, non-compliance with federal or state laws or regulations, which could result in a loss of funding from these sources, and errors or irregularities occurring in financial transactions affecting the bank reconciliations which go undetected.

We recommend that management prepare monthly financial statements and submit them to the Board at each regularly scheduled meeting. The Board should then review these financial statements and when satisfied as to their accuracy approve them through the minute records. In addition, management should ensure that any reports required by the grantor agencies, per the terms of grant agreements, are completed accurately and filed with the respective grantor agencies in a timely manner. Management should also ensure that proper segregation of duties exists, including an independent review of the monthly bank reconciliations.

Official's Response:

The Academy appreciates the Auditor's office assistance in reviewing current school procedures and internal controls. The Academy understands more fully now the potential risks and is implementing additional internal controls to address these risks.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER	2006-003
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Cash Collection Process

Cash collected for uniform and material fees are collected by the secretaries at the beginning of the year. As the monies are collected, the secretary prepared a two-part manual receipt, with the original part being distributed to the payer and second part maintained in the receipt book. The secretaries had 48 hours to deposit all collections with the Director. We noted all other collections, foundation remittances, grant reimbursements, collections for field trips, and all other collections were not recorded in the receipt books. The Director was responsible for depositing the funds to the bank account of the Academy.

We noted the Director did not maintain receipts or any detailed supporting documentation noting the sources of the money received and the date it was collected.

Lack of documentation of the receipt cycle could lead to misappropriation of collections, bank errors which cannot be substantiated, errors occurring between individuals who collect and remit funds and the individual depositing funds, and a lack of consistency in applying internal controls over the receipting cycle.

We recommend the Academy institute a policy of preparing a receipt for all monies received from all sources. As deposits are made, a reconciliation of total receipts to deposit amount should be prepared, by someone outside of the collection/receipting process. This would provide a permanent subsidiary record of all monies received, assist in the bank reconciliation process, and help ensure the completeness of the revenue records of the Academy.

Official's Response:

The Academy appreciates the Auditor's office assistance in reviewing current school procedures and internal controls. The Academy understands more fully now the potential risks and is implementing additional internal controls to address these risks.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2006**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Plan Taken; or Finding No <u>Longer Valid</u> ; Explain:
2005-001	Over payment of teacher	Yes	
2005-002	Financial Report Filing	Yes	
2005-003	Development and Implementing an Effective Monitoring Control System	No	Reissued as 2006-002
2005-004	Cash Collection Process	No	Reissued as 2006-003



Mary Taylor, CPA
Auditor of State

HORIZON SCIENCE ACADEMY OF CLEVELAND

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
OCTOBER 14, 2010**