HEIR FORCE COMMUNITY SCHOOL
ALLEN COUNTY

REGULAR AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

HEIR FORCE COMMUNITY SCHOOL
ALLEN COUNTY

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INDEPENDENT ACCOUNTANTS' REPORT

Heir Force Community School
Allen County
150 West Grand Avenue
Lima, Ohio 45801

To the Board of Directors:

We have audited the accompanying financial statements of the Heir Force Community School, Allen County (the School), as of and for the fiscal year ended June 30, 2011, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School'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 respective financial position of the Heir Force Community School, Allen County, as of June 30, 2011, and the respective changes in financial position and where applicable, cash flows, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2012, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

Dave Yost

Dave Yost
Auditor of State

January 11, 2012

The management's discussion and analysis of the Heir Force Community School (the "School") financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the School's financial performance as a whole. Readers should also review our notes to the basic financial statements and the financial statements themselves to enhance their understanding of the School's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented, and is presented in the MD&A.

Financial Highlights

Key financial highlights for the Heir Force Community School during fiscal year 2011 are as follows:

- Total net assets of the School increased $62,639 during the fiscal year. Ending net assets of the School were $357,594 compared with $294,955 at June 30, 2010.
- Total assets increased $97,240 from the prior year and total liabilities increased by $34,601 during this same 12 month period.
- The School's operating loss for fiscal year 2011 was $415,319 compared with an operating loss of $297,787 reported for the prior year.
- Total revenues increased by $236,607 while operating expenses increased by $278,002 over those reported for the prior year.

Using the Basic Financial Statements

This financial report contains the basic financial statements of the School, as well as the Management's Discussion and Analysis and Notes to the Basic Financial Statements. The basic financial statements include a Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows. As the School reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity, therefore the entity wide and the fund presentations information is the same.

Statement of Net Assets

The Statement of Net Assets answers the question, "How did we do financially during the fiscal year?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term, using the accrual basis of accounting and the economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

This statement reports the School's net assets; however, in evaluating the overall position and financial viability of the School, non-financial information such as the condition of the School's property and potential changes in the laws governing charter schools in the State of Ohio will also need to be evaluated.

Financial Analysis

Table 1 provides a summary of the School's net assets for 2011 and 2010:

Table 1
Net Assets

	2011	2010
Assets:		
Current Assets	$456,175	$ 327,394
Security Deposits	12,000	12,000
Capital Assets, Net	56,075	87,616
Total Assets	$524,250	$ 427,010
Liabilities		
Current Liabilities	$166,656	$ 132,055
Total Liabilities	166,656	132,055
Net Assets:		
Invested in Capital Assets	56,075	87,616
Restricted	63,155	34,240
Unrestricted	238,364	173,099
Total Net Assets	$357,594	$ 294,955

The total assets of the School increased by $97,240, which represents a 22.8 percent increase, from total assets reported for fiscal year 2010. The increase in assets was the result of a $121,959 increase in cash and cash equivalents resulting from favorable operations, offset by a $31,541 decrease in capital assets, which is the amount by which current year depreciation exceeded current year additions.

Total liabilities of the School increased $34,601 over those reported one year ago. The 26.2 percent increase was primarily due to accrued wages and intergovernmental payables relating to amounts owed for retirement and workers' compensation.

Table 2 provides a summary of the School's change in net assets for 2011 and 2010:

Table 2
Changes in Net Assets

	2011	2010
Operating Revenues:		
Foundation Revenues	$ 1,519,074	$ 1,354,949
Extracurricular Activities	3,511	2,300
Food Services	18,418	29,016
Classroom Fees	21,405	15,673
Non-Operating Revenue		
Federal Grants	447,867	354,048
State Grants	7,083	28,817
Interest	192	228
Contributions and Donations	6,958	3,370
Other Non-Operating Revenue	15,858	15,358
Total Revenues	2,040,366	1,803,759
Operating Expenses:		
Salaries	862,644	738,722
Fringe Benefits	230,990	170,587
Purchased Services	594,653	600,696
Materials and Supplies	203,247	103,954
Depreciation	39,110	53,161
Other Operating Expenses	47,083	32,605
Non-Operating Expenses		
Interest and Fiscal Charges	-	188
Total Expenses	1,977,727	1,699,913
Change in Net Assets	62,639	103,846
Net Assets, Beginning of Year	294,955	191,109
Net Assets, End of the Year	357,594	294,955

Total revenue increased $236,607 for fiscal year 2011 compared with the prior fiscal year primarily due to the increased revenue from the Ohio Department of Education directly related to higher student enrollment compared to the previous fiscal year and stimulus monies received during fiscal year 2011.

Expenses reported for fiscal year 2011 were $277,814 higher than expenses reported for fiscal year 2010 primarily due to higher student enrollment compared to the previous fiscal year. The higher student enrollment required additional teachers and supplies for instruction.

Capital Assets

At the end of fiscal year 2011, the School had $56,075 in leasehold improvements, and furniture, fixtures and equipment. There was a total of $7,569 in purchases which met the School's capitalization threshold of $1,500 during the year. See Note 5 of the basic financial statements for additional details.

Debt

The School had no debt outstanding during the fiscal year.

Current Financial Issues

During the fiscal year 2011, there were approximately 240 students enrolled in the School. The School receives its finances mostly from state aid. Per pupil aid for this period amounted to $5,732 per student. The School depends on legislative and governmental support to fund its operations. Based on information currently available, several changes are expected to occur in the nature of the funding or operations of the School in future fiscal years due to the State's current economic environment.

Contacting the School's Financial Management

This financial report is designed to provide a general overview of the finances of the Heir Force Community School and to show the School's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to the Treasurer of Heir Force Community School, 150 West Grand Avenue, Lima, Ohio 45801.

HEIR FORCE COMMUNITY SCHOOL
ALLEN COUNTY

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2011

Assets:	
Current Assets	
Cash and Cash Equivalents	$ 414,807
Intergovernmental Receivable	41,368
Total Current Assets	456,175
Noncurrent Assets	
Security Deposit	12,000
Capital Assets, Net	56,075
Total Noncurrent Assets	68,075
Total Assets	524,250
Liabilities:	
Current Liabilities	
Accounts Payable	47,517
Accrued Wages and Benefits Payable	91,214
Intergovernmental Payable	27,925
Total Current Liabilities	166,656
Total Liabilities	166,656
Net Assets:	
Invested in Capital Assets	56,075
Restricted	63,155
Unrestricted	238,364
Total Net Assets	$ 357,594

See accompanying notes to the basic financial statements.

HEIR FORCE COMMUNITY SCHOOL
ALLEN COUNTY

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

Operating Revenues:	
Foundation Payments	$ 1,519,074
Extracurricular Activities	3,511
Food Services	18,418
Classroom Fees	21,405
Total Operating Revenues	1,562,408
Operating Expenses:	
Salaries	862,644
Fringe Benefits	230,990
Purchased Services	594,653
Materials and Supplies	203,247
Depreciation	39,110
Other	47,083
Total Operating Expenses	1,977,727
Operating Income (Loss)	(415,319)
Non-Operating Revenues (Expenses):	
Federal Grant Revenue	447,867
State Grant Revenue	7,083
Interest Revenue	192
Contribution and Donation Revenue	6,958
Other Non-Operating Revenue	15,858
Total Non-Operating Revenues (Expenses)	477,958
Change in Net Assets	62,639
Net Assets Beginning of Year	294,955
Net Assets End of Year	$ 357,594

See accompanying notes to the basic financial statements.

HEIR FORCE COMMUNITY SCHOOL
ALLEN COUNTY

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

Cash Flows from Operating Activities:	
Cash Received from Foundation Payments	$ 1,519,074
Cash Received from Extracurricular Activities	3,511
Cash Received from Food Services	18,420
Cash Received from Classroom Fees	21,645
Cash Payments to Suppliers for Goods and Services	(771,445)
Cash Payments to Employees for Services and Benefits	(1,067,043)
Cash Payments for Other Operating Disbursements	(45,316)
Net Cash Used for Operating Activities	(321,154)
Cash Flows from Noncapital Financing Activities:	
Federal Grants Received	435,588
State Grants Received	7,083
Contributions and Donations	6,958
Other Non-Operating Receipts	15,912
Net Cash from Noncapital Financing Activities	465,541
Cash Flows from Capital and Related Financing Activities:	
Payments for Capital Acquisitions	(22,620)
Net Cash Used for Capital and Related Financing Activities	(22,620)
Cash Flows from Investing Activities:	
Interest	192
Net Cash from Investing Activities	192
Net Increase (Decrease) in Cash and Cash Equivalents	121,959
Cash and Cash Equivalents at Beginning of Year	292,848
Cash and Cash Equivalents at End of Year	$ 414,807

See accompanying notes to the basic financial statements.

HEIR FORCE COMMUNITY SCHOOL
ALLEN COUNTY

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

Reconciliation of Operating Income (Loss) to Net Cash Used for Operating Activities:		
Operating Income (Loss)	$	(415,319)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Used for Operating Activities:		
Depreciation		39,110
Changes in Assets and Liabilities:		
(Increase)Decrease in Accounts Receivable		5,403
Increase(Decrease) in Accounts Payable		22,658
Increase(Decrease) in Accrued Wages		14,891
Increase(Decrease) in Intergovernmental Payable		12,103
Net Cash Provided (Used) by Operating Activities	$	(321,154)

See accompanying notes to the basic financial statements.

Note 1 – Description of the School and Reporting Entity

Heir Force Community School (the School) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School's primary focus is to provide ability-centered education that prepares children for a successful future both academically and socially. The School guides and establishes learning experiences that assist each student in discovering and developing his or her individuality and talents in becoming a mature, responsible, civil and productive member of society. The School, which is part of the State's education program, is independent of any school district and is non sectarian in its programs, admission policies, employment practices, and all other operations. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School.

The School was approved for operation under a contract with the Lucas County Educational Service Center (the Sponsor) for a period commencing July 7, 2004 to June 30, 2009. On May 14, 2007, the contract was extended through May 14, 2012. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The School operates under the direction of a Governing Board (the Board). 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 Governing Board controls the School's instructional/support facility staffed by 7 non-certified and 30 certified teaching personnel who provide services to 240 students.

The School entered into a service agreement with Mangen & Associates to provide certain financial and accounting services, including performing all duties required of the Treasurer of the School (Note 12).

Note 2 – Summary of Significant Accounting Policies

The financial statements of the School have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School 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 entity has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989. The School's most significant accounting policies are described below.

A. Basis of Presentation

The School's 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. Enterprise fund reporting focuses on the determination of the change in net assets, financial position, and cash flows.

Note 2 – Summary of Significant Accounting Policies (Continued)

B. Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The statement of revenues, expenses and changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows provides information about how the School finances and meets the cash flow needs of its enterprise activities.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The School's financial statements are prepared using the accrual basis of accounting.

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.

Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is permitted; matching requirements, in which the School must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

Expenses are recognized at the time they are incurred.

D. 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 Rev. Code Section 5705, unless specifically provided in the Schools contract with its Sponsor. The contract between the School and its Sponsor does prescribe an annual budget requirement in addition to preparing a five-year forecast which is to be updated on an annual basis.

E. Cash and Cash Equivalents

All monies received by the School are maintained in a demand deposit account. For internal accounting purposes, the School segregates its cash into separate funds.

For the purpose of the statement of cash flows and for the presentation of the statement of net assets, investments with original maturities of three months or less at the time they are purchased by the School are considered to be cash equivalents.

Note 2 – Summary of Significant Accounting Policies (Continued)

F. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The School does not possess any infrastructure. The School maintains a capitalization threshold of $1,500. Improvements are capitalized. The cost 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.

All reported capital assets are depreciated. Improvements to capital assets are depreciated over the remaining useful life of the related capital assets. Depreciation is computed using the straightline method over the following useful lives:

Description	Estimate Life
Furniture, Fixtures, and Equipment	5 years
Leasehold Improvements	15 years

G. Estimates

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

H. Intergovernmental Revenue

The School currently participates in the State Foundation Basic Aid, Disadvantaged Pupil Impact Aid, and Special Education Programs. The revenue from these programs is recognized as operating revenues in the accounting period in which all eligibility requirements have been met. Grants and entitlements are recognized as nonoperating revenues in the accounting period in which all eligibility requirements are 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 School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

Intergovernmental revenues associated with the Foundation Program totaled $1,519,074. The School also participates in various federal and state programs through the Ohio Department of Education. The programs the School participated in during fiscal year 2011 include: EMIS, Title I, Improving Teacher Quality (Title II-A), Technology (Title II-D), Education Stabilization, Education Jobs, and the School Lunch and Breakfast Programs. Amounts received under the above programs for fiscal year 2011 totaled $454,950.

Note 2 – Summary of Significant Accounting Policies (Continued)

I. Operating and Non-Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly by the School's primary mission. For the School, operating revenues primarily consist of revenues paid through the State Foundation program. Operating expenses are necessary costs incurred to support the School's primary activities, including salaries, benefits, purchased services, materials and supplies, depreciation and other.

Non-operating revenues and expenses are those that are not generated directly by the School's primary activities. Various state and federal grants, interest earnings, if any, and contributions comprise the non-operating revenues of the School. Interest and fiscal charges on outstanding obligations, if any, as well as gain or loss on capital asset disposals, if any, comprise the nonoperating expenses.

J. Accrued Liabilities Payable

The School has recognized certain liabilities on its Statement of Net Assets relating to expenses, which are due but unpaid as of June 30, 2011, including (1) wages payable, consisting of salary payments made after year-end to instructional and support staff for services rendered prior to year-end, and (2) intergovernmental payables, consisting of payments made after year-end for the Schools' share of retirement contributions, Medicare and Workers' Compensation associated with services rendered during the fiscal year.

K. 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, 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 through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Restricted net assets of the School at year-end represent unspent federal and state grant resources for specific instructional and operational programs. The School's restricted net assets at year-end consisted of resources held for food service programs, local contributions, extracurricular activities, and state and federal grant programs. None of the School's restricted net assets are restricted by enabling legislation.

L. Federal Tax Exemption Status

The School is a non-profit organization that has been determined by the Internal Revenue Service to be exempt from federal income taxes as a tax-exempt organization under Section 501 (c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the School's tax-exempt status.

Note 3 – Deposits

Custodial credit risk is the risk that in the event of bank failure, the School will not be able to recover the deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at the Federal Reserve Banks or at member banks of the federal reserve system, in the name of the respective depository and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the School.

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

At June 30, 2011, the carrying amount of the School's deposits was $414,807 and the bank balance was $419,614. Of the bank balance, $250,000 was collateralized under FDIC insurance and the remaining $169,614 was uncollateralized and uninsured. Although all statutory requirements for the deposit of public money had been followed, non-compliance with federal requirements could potentially subject the School to a successful claim by the FDIC.

Note 4 – Intergovernmental Receivables

Receivables at June 30, 2011 consisted of accounts receivables and intergovernmental receivables arising from grants and entitlements. All receivables are considered collectable in full. A summary of intergovernmental receivables follows:

Grants Receivables	**Amount**
Federal Grants:	
Food Service	$ 7,997
Education Jobs	4,036
IDEA-B	861
Title II-D	55
Title I	23,760
Title II-A	4,659
Total Intergovernmental Receivables:	$ 41,368

Note 5 – Capital Assets

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

Capital Assets:	**Beginning Balance**	**Additions**	**Deletions**	**Ending Balance**
Leasehold Improvements	$ 69,595	$ -	$ -	$ 69,595
Furniture and Equipment	345,927	7,569	-	353,496
Total Capital Assets	415,522	7,569	-	423,091
Less Accumulated Depreciation:				
Leasehold Improvements	(18,560)	(4,640)	-	(23,200)
Furniture and Equipment	(309,346)	(34,470)	-	(343,816)
Total Accumulated Depreciation	(327,906)	(39,110)	-	(367,016)
Net Capital Assets	$ 87,616	$ (31,541)	$ -	$ 56,075

Note 6 – Leases

A. Operating Leases

The School has an operating lease with Cornerstone Harvest Church, Inc. for the lease of a school facility. The term of the lease is for ten years and commenced on September 21, 2004, with required payments of $14,000 per month. An amendment to this agreement was signed, effective July 1, 2009, that the lease would continue only for three more years, but with the School's option for three additional renewal periods of three years each. Monthly rent was increased to $15,000 starting September 2009. Payments for this operating lease totaled $180,000 for the fiscal year.

The School has an operating lease with Cornerstone Harvest Church, Inc. for the lease of an Impact Center. The term of the lease is for three years and commenced on August 23, 2010, with required payments of $8,000 per month. Payments for this operating lease totaled $88,000 for the fiscal year.

The School has two operating leases with Perry Corporation for the use of copiers. Payments made for these operating leases totaled $6,885 for the fiscal year.

Note 6 – Leases (Continued)

The following is a schedule of the future minimum payments required under the operating leases as of June 30, 2011:

Year Ended:	Building Lease	Impact Center	Copier Lease	Total
June 30, 2012	$ 180,000	$ 96,000	$ 7,674	$ 283,674
June 30, 2013	-	96,000	7,674	103,674
June 30, 2014	-	8,000	6,824	14,824
June 30, 2015	-	-	1,931	1,931
Total	$ 180,000	$ 200,000	$ 24,103	$ 404,103

The minimum rental payments owed on the contracts mentioned above are not expected to change during the terms of those contracts.

Note 7 – Defined Benefit Plans

(a) School Employees Retirement System

Plan Description - The School contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and 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. The School Employees Retirement System 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 Employer/Audit Resources.

Funding Policy - Plan members are required to contribute 10% of their annual covered salary and the School is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ending June 30, 2011, the allocation to pension and death benefits is 11.81%. The remaining 2.19% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2011, 2010, and 2009, were $28,194, $22,237 and $9,940, respectively, 73 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009. The School's unpaid contribution for fiscal year 2011 has been recorded as a liability.

Note 7 – Defined Benefit Pension Plans (Continued)

(b) State Teachers Retirement System

Plan Description - The School contributes to the State Teachers Retirement System of Ohio (STRS Ohio), 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, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof. 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 toll-free 1-888-227-7877 or by visiting the STRS Ohio Web site at www.strsoh.org.

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% of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit”, the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for 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.

Note 7 – Defined Benefit Pension Plans (Continued)

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.

Note 7 – 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. Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2011, were 10% of covered payroll for members and 14% for employers.

The School's required contributions for pension obligations for the fiscal years ended June 30, 2011, 2010, and 2009 were $81,108, $74,620, and $83,427, respectively; 83 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009. The School's unpaid contribution for fiscal year 2011 has been recorded as a liability.

C. Social Security

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System /State Teachers Retirement System. At fiscal year-end, all members of the Board of Education have elected Social Security. The Board's liability is 6.2% of wages paid.

Note 8 – Post-employment Benefits

(a) School Employees Retirement System

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

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

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2011, the actuarially required allocation is .76%. The School's required contributions for the years ended June 30, 2011, 2010 and 2009 were $1,814, $1,328, and $820, respectively, 73 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

Note 8 – Post-employment Benefits (continued)

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

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

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the year ended June 30, 2011, the health care allocation is 1.43%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. State law provides that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the minimum compensation level was established at $35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The School's contributions assigned to health care, including the surcharge, for the years ended June 30, 2011, 2010, and 2009 were $6,927, $804, and $6,853, respectively, 73 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

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 by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

Note 8 – Post-employment Benefits (continued)

(b) State Teachers Retirement System

Plan Description - The School contributes to the cost-sharing, multiple employer postemployment benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by writing 275 E. Broad St., Columbus, OH 43215-3371, by calling 1-888-227-7877, or by visiting the STRS Ohio web site at www.strsoh.org.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011, STRS Ohio allocated employer contributions equal to 1% of covered payroll to post-employment health care. The School's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were $6,239, $5,740, and $6,417, respectively; 83 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

Note 9 - Restricted Net Assets

At June 30, 2011 the School reported restricted net assets totaling $63,155. The nature of the net asset restrictions are as follows:

Food Service Programs	$41,450
Local Grants and Contributions	12,751
Extracurricular Activities	240
State Grant Programs	594
Federal Grant Programs	8,120

Note 10 – Risk Management

A. Property and Liability

The School 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 2011, the School contracted with Great American Insurance for property and general liability insurance as follows.

Commercial General Liability	$	1,000,000
General Aggregate		3,000,000
Automobile Liability		1,000,000
Excess Liability		1,000,000
Directors and Officers Liability		1,000,000
Directors and Officers Aggregate		3,000,000
Umbrella		2,000,000

There was no significant reduction in coverage from the prior year. Settlement amount have not exceeded coverage amounts in each of the past three years.

B. Workers' Compensation

The School pays the State Worker's Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is determined by the State.

C. Employee Medical and Dental Benefits

The School contracted through independent agents to provide employee medical, dental, and vision insurance to its full time employees who work 30 or more hours a week. The School pays a 80 percent of the monthly premiums for all selected coverage with the remaining coverage paid by the employee.

Note 11 – Contingencies

A. Grants - Amounts received from grantor agencies are subject to audit and adjustment by the grantor. Any disallowed costs may require refunding to the grantor. Amounts, which may be disallowed, if any, are not presently determinable. However, in the opinion of the School, any such disallowed claims will not have a material adverse effect on the financial position of the School at June 30, 2011.

B. State Funding - The Ohio Department of Education conducts reviews of enrollment data and FTE calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The review of fiscal year 2011 has yet to be determined. The School does not believe any adjustments will be material to the financial statements.

Note 12 – Fiscal Agent

Beginning July 1, 2008, the School is a party to a fiscal services agreement with Mangen & Associates (M&A) LLC, which is an education finance consulting company. The Agreement's term is for a twelve month period beginning July 1st and may be terminated by either party, with or without cause, by giving the other party ninety days written notice to terminate. The Agreement provides that M&A will perform treasurer and financial support services. Payments totaling $74,594 were paid during the year. A liability of $0 was accrued as of June 30, 2011.

M&A shall perform all of the following functions while serving as the Treasurer of the School:

- Maintain custody of all funds received by the School in segregated accounts separate from any other community school's funds;
- Maintain all books and accounts of all funds of the School;
- Maintain all financial records of the School and follow procedures for receiving and expending state funds, which procedures shall include that the Treasurer shall disburse money only upon receipt of a voucher signed by the Chief Administrative Officer of the School or that Officer's designee;
- Assist the School in meeting all financial reporting requirements established by the Ohio Auditor of State;
- Invest funds of the School in a manner consistent with the School's investment policy and the Ohio Revised Code, but the Treasurer shall not commingle the funds with the funds of any other community school; and
- Pay obligations incurred by the School within a reasonable amount of time, not more than 14 calendar days after receipt of a properly executed voucher signed by the Chief Administrative Officer of the School, so long as the proposed expenditure is within the approved budget and funds are available.

The School and M&A extended their agreement for M&A to provide fiscal services through June 30, 2012.

Note 13 – Related Parties

The School has leased classroom space and an Impact Center from Cornerstone Harvest Church and also pays maintenance costs with the lease of this space. The Pastor of the Cornerstone Harvest Church is also a member of the Board of Directors of the School.

Dave Yost • Auditor of State

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

Heir Force Community School
Allen County
150 West Grand Avenue
Lima, Ohio 45801

To the Board of Directors:

We have audited the financial statements of the Heir Force Community School, Allen County, (the School) as of and for the fiscal year ended June 30, 2011, which collectively comprise the School's basic financial statements and have issued our report thereon dated January 11, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School'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 School's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School'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 School'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.

One First National Plaza, 130 W. Second St., Suite 2040, Dayton, Ohio 45402
Phone: 937-285-6677 or 800-443-9274 Fax: 937-285-6688
www.auditor.state.oh.us

Compliance and Other Matters

As part of reasonably assuring whether the School'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.

We did note certain matters not requiring inclusion in this report that we reported to the School's management in a separate letter dated January 11, 2012.

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

Dave Yost

Dave Yost
Auditor of State

January 11, 2012

Dave Yost • Auditor of State

Independent Accountants' Report on Applying Agreed-Upon Procedure

Heir Force Community School
Allen County
150 W. Grand Ave
Lima, Ohio 45801

To the Board of Directors:

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

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Heir Force Academy (the School) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the School. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the School did not amend its anti-harassment policy to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

   Ohio Rev. Code Section 3313.666 required the School to amend its definition by September 28, 2010.

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

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

Dave Yost

Dave Yost
Auditor of State

January 11, 2011

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HEIR FORCE COMMUNITY SCHOOL

ALLEN 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
FEBRUARY 7, 2012