HEIR FORCE COMMUNITY SCHOOL
ALLEN COUNTY

REGULAR AUDIT

FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2016

HEIR FORCE COMMUNITY SCHOOL
ALLEN COUNTY

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INDEPENDENT AUDITOR'S REPORT

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

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Heir Force Community School, Allen County, Ohio (the School), as of and for the fiscal years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Heir Force Community School, Allen County as of June 30, 2017 and 2016, and the changes in its financial position and its cash flows for the fiscal years then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2018, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Dave Yost

Dave Yost
Auditor of State
Columbus, Ohio

June 20, 2018

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, 2017. 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 during fiscal year 2017 are as follows:

- Total net position of the School decreased $219,944 during the fiscal year. Ending net position of the School was negative $1,849,498 compared with negative $1,629,554 at June 30, 2016.

- Total assets decreased $162,216 from the prior fiscal year and total liabilities increased by $520,350 during this same 12-month period.

- The School's operating loss for fiscal year 2017 was $723,561 compared with an operating loss of $179,793 reported for the prior fiscal year.

- Total revenues decreased by $336,667 compared to those reported for the prior fiscal year while total expenses increased $246,569 during the same period.

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 Position, Statement of Revenues, Expenses and Changes in Net Position, 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 Position

The Statement of Net Position 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 position; 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 position for 2017 and 2016:

Table 1
Net Position

	2017	2016
Assets:		
Current Assets	$ 819,574	$ 964,275
Security Deposits	12,000	12,000
Capital Assets, Net	184,077	201,592
Total Assets	1,015,651	1,177,867
Deferred Outflows of Resources-Pensions	614,423	281,934
Liabilities		
Current Liabilities	164,683	163,868
Long-Term Liabilities-Net Pension Liability	3,175,413	2,655,878
Total Liabilities	3,340,096	2,819,746
Deferred Inflows of Resources-Pensions	139,476	269,609
Net Position:		
Net Investment in Capital Assets	184,077	201,592
Restricted	88,632	92,699
Unrestricted	(2,122,207)	(1,923,845)
Total Net Position	$ (1,849,498)	$ (1,629,554)

Current Assets decreased significantly in comparison with the prior fiscal year-end. This decrease is primarily the result of a decrease in cash and cash equivalents from operations.

Deferred Outflows of Resources and Net Pension Liability both increased significantly in comparison with the prior fiscal year-end. These increases are primarily the result of a change in actuarial assumptions and the difference between expected and actual investment returns, as reported by the pension systems.

The total net position reported for fiscal year 2017 decreased by $219,944. Table 2 provides a summary of the School's change in net position for 2017 and 2016:

Table 2
Changes in Net Position

	2017	2016
Operating Revenues:		
Foundation Revenues	$ 1,801,965	$ 2,051,421
Other Unrestricted Grants-In-Aid	64,930	59,211
Econcomic Disadvantaged Funding	163,830	208,044
Food Services	275	921
Classroom Fees	11,546	20,148
Total Operating Revenue	2,042,546	2,339,745
Operating Expenses:		
Salaries	1,176,358	1,080,660
Fringe Benefits	330,139	243,414
Purchased Services	971,302	867,209
Materials and Supplies	246,211	253,858
Depreciation	28,002	32,700
Other Operating Expenses	14,095	41,697
Total Operating Expenses	2,766,107	2,519,538
Non-Operating Revenues:		
Federal Grants	487,094	519,168
State Grants	-	3,524
Other	16,523	20,393
Total Non-Operating Revenues	503,617	543,085
Change in Net Position	(219,944)	363,292
Net Position, Beginning of Year	(1,629,554)	(1,992,846)
Net Position, End of the Year	(1,849,498)	(1,629,554)

Foundation Revenues decreased in comparison with the prior fiscal year as of the result of decreased student enrollment from 297 students in fiscal year 2016 to 258 students in fiscal year 2017.

Total expenses increased significantly in comparison with the prior fiscal year. This increase is primarily due to an increase in pension expense, as reported by the pension systems.

Capital Assets

At the end of fiscal year 2017, the School had $184,077 invested in leasehold improvements and furniture and equipment, a decrease of $17,515 in comparison with the prior fiscal year. This decrease represents the amount by which current year depreciation exceeded current year additions. See Note 5 of the basic financial statements for additional details.

Debt

The School had no debt outstanding during the fiscal year.

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 POSITION
AS OF JUNE 30, 2017

Assets:	
Current Assets	
Cash and Cash Equivalents	$ 773,363
Intergovernmental Receivable	3,628
Prepaid Items	42,583
Total Current Assets	819,574
Noncurrent Assets	
Security Deposit	12,000
Capital Assets, Net	184,077
Total Noncurrent Assets	196,077
Total Assets	1,015,651
Deferred Outflows of Resources:	
Pension	614,423
Liabilities:	
Current Liabilities	
Accounts Payable	26,749
Accrued Wages and Benefits Payable	109,587
Intergovernmental Payable	28,347
Total Current Liabilities	164,683
Long-Term Liabilities:	
Net Pension Liability	3,175,413
Total Liabilities	3,340,096
Deferred Inflows of Resources:	
Pension	139,476
Net Position:	
Net Investment in Capital Assets	184,077
Restricted	88,632
Unrestricted	(2,122,207)
Total Net Position	$ (1,849,498)

See accompanying notes to the basic financial statements.

HEIR FORCE COMMUNITY SCHOOL
ALLEN COUNTY

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Operating Revenues:	
Foundation Payments	$ 1,801,965
Other Unrestricted Grants-In-Aid	64,930
Economic Disadvantaged Funding	163,830
Food Services	275
Classroom Fees	11,546
Total Operating Revenues	2,042,546
Operating Expenses:	
Salaries	1,176,358
Fringe Benefits	330,139
Purchased Services	971,302
Materials and Supplies	246,211
Depreciation	28,002
Other	14,095
Total Operating Expenses	2,766,107
Operating Loss	(723,561)
Non-Operating Revenues:	
Federal Grant Revenue	487,094
Other	16,523
Total Non-Operating Revenues	503,617
Change in Net Position	(219,944)
Net Position Beginning of Year	(1,629,554)
Net Position End of Year	$ (1,849,498)

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, 2017

Cash Flows from Operating Activities:	
Received from State of Ohio	$ 2,031,774
Received from Food Services	275
Received from Classroom Fees	11,601
Payments to Suppliers for Goods and Services	(1,233,478)
Payments to Employees for Services and Benefits	(1,433,769)
Payments for Other Operating Disbursements	(20,382)
Net Cash Used for Operating Activities	(643,979)
Cash Flows from Noncapital Financing Activities:	
Federal Grants Received	491,598
Other Non-Operating Receipts	16,523
Net Cash Provided by Noncapital Financing Activities	508,121
Cash Flows from Capital and Related Financing Activities:	
Payments for Capital Acquisitions	(10,487)
Net Cash Used for Capital and Related Financing Activities	(10,487)
Net Decrease in Cash and Cash Equivalents	(146,345)
Cash and Cash Equivalents at Beginning of Year	919,708
Cash and Cash Equivalents at End of Year	$ 773,363

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, 2017

Reconciliation of Operating Loss to Net Cash Used for Operating Activities:		
Operating Loss	$	(723,561)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:		
Depreciation		28,002
Changes in Assets and Liabilities:		
Intergovernmental Receivable		(3,146)
Accounts Receivable		55
Prepaid Items		(3,057)
Accounts Payable		(18,070)
Accrued Wages		15,286
Intergovernmental Payable		3,599
Net Pension Liability and Related Deferrals		56,913
Net Cash Used for Operating Activities	$	(643,979)

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 Educational Service Center of Lake Erie West (the Sponsor) for a period commencing July 7, 2004 to June 30, 2009. The contract has since been amended and is automatically extended or renewed each year, unless terminated or non-renewed based on the terms of the contract. 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 15 non-certified and 22 certified teaching personnel who provide services to 258 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 14).

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's most significant accounting policies are described below.

A. Basis of Presentation

The School's financial statements consist of a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows. Enterprise fund reporting focuses on the determination of the change in net position, financial position, and cash flows.

B. Measurement Focus

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

Note 2 – Summary of Significant Accounting Policies (Continued)

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 position, investments with original maturities of three months or less at the time they are purchased by the School are considered to be cash equivalents.

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.

Note 2 – Summary of Significant Accounting Policies (Continued)

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	10-25 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 is a participant in the State Foundation Program. In addition, State distributes, among all public schools, a percentage of proceeds received from the tax on gross casino revenue, to be used to support primary and secondary education. Foundation funding and casino revenues are recognized as operating revenues in the accounting period in which they are earned, essentially the same as the fiscal year received. Federal and state grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements of the grants have been met.

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 include revenues paid through the State Foundation Program and Other Unrestricted Grants-In-Aid distributed from the State's proceeds of the tax on gross casino revenue. Operating expenses are necessary costs incurred to support the School's primary mission, 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 mission. Various federal and state grants, interest earnings and expense, if any, and contributions comprise the non-operating revenues and expenses of the School.

J. Accrued Liabilities Payable

The School has recognized certain liabilities on its Statement of Net Position relating to expenses, which are due but unpaid as of June 30, 2017, including (1) wages and benefits payable, consisting of salary and benefit payments made after year-end to instructional and support staff for services rendered prior to year-end, (2) accounts payable, consisting of payments due for services or goods that were rendered or received during fiscal year 2017, and (3) 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.

Note 2 – Summary of Significant Accounting Policies (Continued)

K. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School, deferred outflows of resources are reported on the statement of net position for pensions. These deferred outflows of resources related to pensions are explained in Note 7.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. This deferred inflow of resources related to pension is explained in Note 7.

L. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

M. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net Investment in Capital Assets consists of capital assets, net of accumulated depreciation, less any outstanding capital related debt. Net position is 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 when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

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.

Note 3 – Deposits (Continued)

At June 30, 2017, the carrying amount of the School's deposits was $773,363 and the bank balance was $788,266. Of the bank balance, $250,000 was collateralized under FDIC and the remaining amount was 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, 2017 consisted of intergovernmental receivables arising from pension system overpayments. All receivables are considered collectable in full.

Note 5 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2017 is as follows:

Capital Assets:	Beginning Balance	Additions	Deletions	Ending Balance
Leasehold Improvements	$ 233,987	$ -	$ -	$ 233,987
Furniture and Equipment	460,984	10,487	-	471,471
Total Capital Assets	694,971	10,487	-	705,458
Less Accumulated Depreciation:				
Leasehold Improvements	(58,872)	(13,490)	-	(72,362)
Furniture and Equipment	(434,507)	(14,512)	-	(449,019)
Total Accumulated Depreciation	(493,379)	(28,002)	-	(521,381)
Net Capital Assets	$ 201,592	$ (17,515)	$ -	$ 184,077

Note 6 – Operating Leases

The School leases land and school facilities located at 2000 North Cole Street and 150 West Grand from Cornerstone Harvest Church. For fiscal year 2017, the lease agreement contained required payments of $38,000 per month. Operating lease payments to Cornerstone Harvest Church during the fiscal year totaled $456,000. For fiscal years 2018, lease payments will be $39,140 per month.

The School has an operating lease with US Bank Corporation for the use of a copiers for $920 a month. Payments made for this operating lease totaled $13,616 for the fiscal year.

Note 6 – Operating Leases (Continued)

The following is a schedule of the future minimum payments required under the operating leases as of June 30, 2017:

Year Ended	School Facilities	Copiers	Total
June 30, 2018	$ 469,680	$ 11,034	$ 480,714

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

Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions-–between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the School's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the Schools obligation for this liability to annually required payments. The School cannot control benefit terms or the manner in which pensions are financed; however, the School does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

Note 7 – Defined Benefit Plans (Continued)

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on accrual basis of accounting.

Plan Description - School Employees Retirement System (SERS)

Plan Description – School non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS' fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the allocation to pension, death benefits, and Medicare B was 14 percent and nothing was allocated to the Health Care Fund.

Note 7 – Defined Benefit Plans (Continued)

The School's contractually required pension contribution to SERS was $54,230. The entire amount was paid during the fiscal year.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – School licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. 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 DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

Note 7 – Defined Benefit Plans (Continued)

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2017, plan members were required to contribute 14 percent of their annual covered salary. The School was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

The School's contractually required contribution to STRS was $109,865 for fiscal year 2017. Of this amount, $16,067 is reported as an intergovernmental payable.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportion of the net pension liability was based on the School's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	SERS	STRS	Total
Proportionate Share of the Net Pension Liability - 2017	$ 919,620	$ 2,255,793	$ 3,175,413
Proportion of the Net Pension Liability - 2017	0.0125647%	0.00673914%	
Proportion of the Net Pension Liability - 2016	0.0138410%	0.00675211%	
Change in Proportionate Share	-0.0012763%	-0.00001297%	
Pension Expense	$ 82,476	$ 138,532	$ 221,008

Note 7 – Defined Benefit Plans (Continued)

At June 30, 2017, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	$12,403	$91,146	$103,549
Differences between projected and actual investment earnings	75,855	187,291	263,146
Changes of assumptions	61,390	0	61,390
Change in proportionate share	22,243	0	22,243
School contributions subsequent to the measurement date	54,230	109,865	164,095
Total Deferred Outflows of Resources	$226,121	$388,302	$614,423
Deferred Inflows of Resources			
Change in proportionate share	$50,526	$88,950	$139,476
Total Deferred Inflows of Resources	$50,526	$88,950	$139,476

$164,095 reported as deferred outflows of resources related to pension resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2018	$29,315	$15,751	$45,066
2019	30,617	15,751	46,368
2020	34,425	87,619	122,044
2021	27,008	70,366	97,374
Total	$121,365	$189,487	$310,852

Actuarial Assumptions - SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Note 7 – Defined Benefit Plans (Continued)

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2016, are presented below:

Wage Inflation	3 percent
Future Salary Increases, including inflatio	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2015.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

Note 7 – Defined Benefit Plans (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	100.00 %	

Discount Rate The total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
School's proportionate share of the net pension liability	$1,217,520	$919,620	$670,266

Note 7 – Defined Benefit Plans (Continued)

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Changes Between Measurement Date and Report Date In March 2017, the STRS Board adopted certain assumptions changes which will impact their annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75 percent to 7.45 percent. In April 2017, the STRS Board voted to suspend cost of living adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the overall decrease to the School's net pension liability is expected to be significant.

Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	100.00 %	

Note 7 – Defined Benefit Plans (Continued)

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2016.

Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the School's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the School's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School's proportionate share of the net pension liability	$2,997,766	$2,255,793	$1,629,896

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 a postemployment benefit plan.

Health Care Plan – Sections 3309.375 and 3309.69 of the Ohio Revised Code 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 Ohio Revised Code provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plan.

Note 8 – Post-employment Benefits (Continued)

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required pensions and benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund to be used to subsidize the cost of health care coverage. For the year ended June 30, 2017, the health care allocation is 0.00%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro- rated if less than a full year of service credit was earned. By statute 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 2017, the minimum compensation level was established at $23,000. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. School contributions assigned to health care for the year ended June 30, 2017, 2016, and 2015 were $6,629, $6,574, and $11,039, respectively. The entire amount has been contributed for fiscal years 2016 and 2015. For fiscal year 2017, the entire amount is reported as an intergovernmental payable.

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 on SERS' Health Care plan is included in its Comprehensive Annual Financial Report. The report can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

b. State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS 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. Active employee members do not contribute to the Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employee contributions. For fiscal year 2017, STRS did not allocate any employee contributions for post-employment health care.

The School's contractually required health care contributions to STRS for fiscal years 2017, 2016 and 2015 were $0, $0, and $0, respectively. The entire amount has been contributed for each fiscal year.

Note 9 - Restricted Net Position

The nature of the School's net position restrictions at fiscal year-end are as follows:

Description	Amount
Food Service Program	$82,410
Fund Raising Activities	6,222
	$88,632

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 2017, the School contracted with Ralph E. Wade Insurance Agency 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 80 percent of the monthly premiums for all selected coverage with the remaining coverage paid by the employee.

Note 11 – Contingencies

A. Grants - The School received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. The effect of any such disallowed claims on the overall financial position of the School at June 30, 2017, if applicable, cannot be determined at this time. 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 fiscal year-end.

B. **Full-Time Equivalency Reviews –** Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. However, there is an important nexus between attendance and enrollment for Foundation funding purposes. Community schools must provide documentation that clearly demonstrates students have participated in learning opportunities. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end.

Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE performed such a review on the School for fiscal year 2017 and determined the School was overpaid by $1,566. This amount is reported as intergovernmental payable on the Statement of Net Position.

In addition, the School's contract with their Sponsor requires payment based on revenues from the State. From July 1, 2016 to December 31, 2016 the sponsor fee was 2% of the total amount of operating expenses the school received by the State of Ohio, and as of January 1, 2017 increase to 2.5% of the total amount of operating expenses received by the State of Ohio. The sponsor adjustments are taken into account the month the school incurs the expense or receipt.

Note 12 – Purchased Services

Purchased service expenses during the fiscal year were as follows:

Instructional Improvement	$ 500
Management Services	77,760
Legal Services	5,094
Other Professional and Technical Services	117,417
Garbage Removal and Cleaning	3,246
Repairs and Maintenance Services	160,693
Rentals	491,709
Meeting Expenses	3,564
Postage	956
Advertising	9,053
Utilities	89,986
Transportation Services	7,573
Other Purchased Services	607
Contracted Food Services	3,144
Total	$ 971,302

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. Some members of the Board of Directors of the School are also members of Cornerstone Harvest Church.

Note 14 – Fiscal Agent

Beginning July 1, 2008, the School was a party to a fiscal services agreement with Mangen & Associates (M&A) LLC, which is an education finance consulting company. The Agreement's term was 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 provided that M&A will perform treasurer and financial support services.

The School and M&A entered into a new three-year agreement, commencing July 1, 2014 and ending on June 30, 2017 for continued treasurer and financial support services. Payments totaling $77,760 were paid during the year.

The following is a summary of the services M&A will provide as Treasurer of the School, M&A

1. **Treasurer of Record**
   a. Signatory to certify availability of funds
   b. Establish appropriate checks and balances
   c. Oversee administration of payroll and payables
   d. Accommodate SERS and STRS filing and payment requirements
   e. Complete all required state and federal reports and financial EMIS data
   f. Plan and implement reserve growth plan and ORC 135 investments
   g. Prepare and oversee budget and long-term financial plan
   h. Ensure adherence to established board policies
   i. Provide equity position updates with budget
   j. Provide ongoing training and support to Director/Board in school funding and accounting
   k. Assistance with accessing and managing all government and private grants

2. **Provide an efficient and effective accounting system**
   a. Use a model purchase requisition, order, invoice, payment process
   b. Certify funds for all contracts and purchases over $500
   c. Process receipts, payables, and payroll through State Software
   d. Secure copy of capital asset and inventory list from School
   e. Present monthly fund balances for each restricted and unrestricted fund
   f. Reconcile all bank statements and USAS reports monthly
   g. Provide monthly, quarterly, mid-year and annual financial information, including ending fund balances for each fund, receipts/disbursements summary, cash flow analysis, and year-to-date budget/actual analysis.

3. **CCIP Grants Management- CCIP (Comprehensive Continuous Improvement Planning) and Competitive Grant Writing and Administration**
   a. Coordinate efforts with Heir Force Community School educational leaders as well as the Treasurer to ensure efficient, effective and proper use of CCIP funds.
   b. Provide District CCIP Plan writing/editing assistance & CCIP budget coordination
   c. Provide ongoing CCIP budget reviews with treasurer
   d. Provide assistance with any CCIP carryover allocations
   e. Provide assistance with compliance/audit (PACTS). Director will be responsible for completing PACTS self-evaluation
   f. Draft Project Cash Requests and Final Expenditure Reports for treasurer approval

Note 15 – Change in Accounting Principles

For fiscal year 2017, the School implemented *GASB Statement No. 77 "Tax Abatement Disclosures"* which improves disclosure of tax abatement information, such as how the tax abatements affect their financial statements and operations and the government's ability to raise resources in the future, by reporting (1) the government's own tax abatement agreements; and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The implementation of this statement did not have a significant effect on the financial statements of the School.

For fiscal year 2017, the School implemented *GASB Statement No. 78 "Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans"* which amends the scope and applicability of GASB Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer. The implementation of this statement did not have an effect on the financial statements of the School.

For fiscal year 2017, the School implemented *GASB Statement No. 80 "Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14"* which amends the blending requirements for the financial statement presentation of component units of all state and local governments to enhanced the comparablilty of financial statements among governments. The implementation of this statement did not have an effect on the financial statements of the School.

For fiscal year 2017, the School implemented *GASB Statement No. 82 "Pension Issues – An Amendment of GASB Statements No. 67, 68, and 73"* which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy plan member contribution requirements. The implementation of this statement did not have an effect on the financial statements of the School.

REQUIRED SUPPLEMENTARY INFORMATION

HEIR FORCE COMMUNITY SCHOOL
ALLEN COUNTY

SCHEDULE OF SCHOOL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

LAST FOUR FISCAL YEARS (1)

	2016	2015	2014	2013
School's Proportion of the Net Pension Liability	0.012565%	0.013841%	0.012989%	0.012989%
School's Proportionate Share of the Net Pension Liability	$ 919,620	$ 789,792	$ 657,365	$ 772,414
School's Covered-Employee Payroll	$ 355,732	$ 451,662	$ 379,571	$ 288,822
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	258.51%	174.86%	173.19%	267.44%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62.98%	69.16%	71.70%	65.52%

(1) Information prior to 2013 is not available.

HEIR FORCE COMMUNITY SCHOOL
ALLEN COUNTY

SCHEDULE OF SCHOOL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
STATE TEACHERS RETIREMENT SYSTEM OF OHIO

LAST FOUR FISCAL YEARS (1)

	2016	2015	2014	2013
School's Proportion of the Net Pension Liability	0.00673914%	0.00675211%	0.00725349%	0.00725349%
School's Proportionate Share of the Net Pension Liability	$ 2,255,793	$ 1,866,086	$ 1,764,300	$ 2,101,622
School's Covered-Employee Payroll	$ 721,802	$ 728,335	$ 841,654	$ 776,085
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	312.52%	256.21%	209.62%	270.80%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	72.10%	74.70%	69.30%

(1) Information prior to 2013 is not available.

HEIR FORCE COMMUNITY SCHOOL
ALLEN COUNTY

SCHEDULE OF SCHOOL CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

LAST TEN FISCAL YEARS

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually Required Contribution	$ 54,230	$ 49,803	$ 59,529	$ 52,609	$ 39,973	$ 30,421	$ 30,008	$ 23,565	$ 10,760	$ 17,965
Contributions in relation to the contractually required contribution	$ 54,230	$ 49,803	$ 59,529	$ 52,609	$ 39,973	$ 30,421	$ 30,008	$ 23,565	$ 10,760	$ 17,965
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered-employee payroll	$ 387,360	$ 355,732	$ 451,662	$ 379,571	$ 288,822	$ 226,178	$ 238,727	$ 174,040	$ 109,350	$ 182,943
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.18%	13.86%	13.84%	13.45%	12.57%	13.54%	9.84%	9.82%

HEIR FORCE COMMUNITY SCHOOL
ALLEN COUNTY

SCHEDULE OF SCHOOL CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM OF OHIO

LAST TEN FISCAL YEARS

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually Required Contribution	$ 109,865	$ 101,052	$ 101,967	$ 109,415	$ 100,891	$ 90,715	$ 81,108	$ 74,620	$ 83,427	$ 74,285
Contributions in relation to the contractually required contribution	$ 109,865	$ 101,052	$ 101,967	$ 109,415	$ 100,891	$ 90,715	$ 81,108	$ 74,620	$ 83,427	$ 74,285
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered-employee payroll	$ 784,748	$ 721,802	$ 728,335	$ 841,654	$ 776,085	$ 697,808	$ 623,907	$ 574,000	$ 641,743	$ 571,423
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	14.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

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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, 2016. 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 during fiscal year 2016 are as follows:

- Total net position of the School increased $363,292 during the fiscal year. Ending net position of the School was negative $1,629,554 compared with negative $1,992,846 at June 30, 2015.

- Total assets increased $301,187 from the prior fiscal year and total liabilities increased by $199,238 during this same 12-month period.

- The School's operating loss for fiscal year 2016 was $179,793 compared with an operating loss of $462,925 reported for the prior fiscal year.

- Total revenues increased by $180,997 compared to those reported for the prior fiscal year while total expenses decreased $103,816 during the same period.

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 Position, Statement of Revenues, Expenses and Changes in Net Position, 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 Position

The Statement of Net Position 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 position; 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 position for 2016 and 2015:

Table 1
Net Position

	2016	2015
Assets:		
Current Assets	$ 964,275	$ 758,575
Security Deposits	12,000	12,000
Capital Assets, Net	201,592	106,105
Total Assets	1,177,867	876,680
Deferred Outflows of Resources-Pensions	281,934	184,076
Liabilities		
Current Liabilities	163,868	198,843
Long-Term Liabilities-Net Pension Liability	2,655,878	2,421,665
Total Liabilities	2,819,746	2,620,508
Deferred Inflows of Resources-Pensions	269,609	433,094
Net Position:		
Net Investment in Capital Assets	201,592	106,105
Restricted	92,699	95,532
Unrestricted	(1,923,845)	(2,194,483)
Total Net Position	$ (1,629,554)	$ (1,992,846)

Current Assets increased significantly in comparison with the prior fiscal year-end. This increase is primarily the result of an increase in cash and cash equivalents. The increase in cash and cash equivalents is from favorable operations.

Capital Assets also increased significantly. This increase is the result of a paving project during the fiscal year, offset by current year depreciation.

The net pension liability increased significantly in comparison with the prior fiscal year-end. This increase is primarily the result of unfavorable pension investment returns.

The total net position reported for fiscal year 2016 increased by $363,292. Table 2 provides a summary of the School's change in net position for 2016 and 2015:

Table 2
Changes in Net Position

	2016	2015
Operating Revenues:		
Foundation Revenues	$ 2,051,421	$ 1,889,453
Other Unrestricted Grants-In-Aid	59,211	40,033
Econcomic Disadvantaged Funding	208,044	204,630
Extracurricular Activities	-	1,817
Food Services	921	5,394
Classroom Fees	20,148	19,102
Total Operating Revenue	2,339,745	2,160,429
Operating Expenses:		
Salaries	1,080,660	1,182,707
Fringe Benefits	243,414	306,793
Purchased Services	867,209	879,535
Materials and Supplies	253,858	220,385
Depreciation	32,700	29,553
Other Operating Expenses	41,697	4,381
Total Operating Expenses	2,519,538	2,623,354
Non-Operating Revenues:		
Federal Grants	519,168	533,014
State Grants	3,524	-
Contributions and Donations	-	1,213
Other	20,393	7,177
Total Non-Operating Revenues	543,085	541,404
Change in Net Position	363,292	78,479
Net Position, Beginning of Year	(1,992,846)	(2,071,325)
Net Position, End of the Year	(1,629,554)	(1,992,846)

Foundation Revenues increased in comparison with the prior fiscal year as of the result of increased student enrollment from 277 students in fiscal year 2015 to 297 students in fiscal year 2016.

Total expenses decreased significantly in comparison with the prior fiscal year. This decrease is primarily the result of decreases in staffing and related expenses.

Capital Assets

At the end of fiscal year 2016, the School had $201,592 invested in leasehold improvements and furniture and equipment, an increase of $95,487 in comparison with the prior fiscal year. This increase represents the amount by which current year additions exceeded current year depreciation. See Note 5 of the basic financial statements for additional details.

Debt

The School had no debt outstanding during the fiscal year.

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 POSITION
AS OF JUNE 30, 2016

Assets:		
Current Assets		
Cash and Cash Equivalents	$	919,708
Intergovernmental Receivable		4,986
Accounts Receivable		55
Prepaid Items		39,526
Total Current Assets		964,275
Noncurrent Assets		
Security Deposit		12,000
Capital Assets, Net		201,592
Total Noncurrent Assets		213,592
Total Assets		1,177,867
Deferred Outflows of Resources:		
Pension		281,934
Liabilities:		
Current Liabilities		
Accounts Payable		44,819
Accrued Wages and Benefits Payable		94,301
Intergovernmental Payable		24,748
Total Current Liabilities		163,868
Long-Term Liabilities:		
Net Pension Liability		2,655,878
Total Liabilities		2,819,746
Deferred Inflows of Resources:		
Pension		269,609
Net Position:		
Net Investment in Capital Assets		201,592
Restricted		92,699
Unrestricted		(1,923,845)
Total Net Position	$	(1,629,554)

See accompanying notes to the basic financial statements.

HEIR FORCE COMMUNITY SCHOOL
ALLEN COUNTY

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Operating Revenues:	
Foundation Payments	$ 2,051,421
Other Unrestricted Grants-In-Aid	59,211
Economic Disadvantaged Funding	208,044
Food Services	921
Classroom Fees	20,148
Total Operating Revenues	2,339,745
Operating Expenses:	
Salaries	1,080,660
Fringe Benefits	243,414
Purchased Services	867,209
Materials and Supplies	253,858
Depreciation	32,700
Other	41,697
Total Operating Expenses	2,519,538
Operating Loss	(179,793)
Non-Operating Revenues:	
Federal Grant Revenue	519,168
State Grant Revenue	3,524
Other	20,393
Total Non-Operating Revenues	543,085
Change in Net Position	363,292
Net Position Beginning of Year	(1,992,846)
Net Position End of Year	$ (1,629,554)

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, 2016

Cash Flows from Operating Activities:		
Received from State of Ohio	$	2,332,629
Received from Food Services		922
Received from Classroom Fees		20,733
Payments to Suppliers for Goods and Services		(1,106,745)
Payments to Employees for Services and Benefits		(1,389,872)
Payments for Other Operating Disbursements		(35,404)
Net Cash Used for Operating Activities		(177,737)
Cash Flows from Noncapital Financing Activities:		
Federal Grants Received		572,105
State Grants Received		3,524
Other Non-Operating Receipts		20,393
Net Cash Provided by Noncapital Financing Activities		596,022
Cash Flows from Capital and Related Financing Activities:		
Payments for Capital Acquisitions		(128,187)
Net Cash Used for Capital and Related Financing Activities		(128,187)
Net Increase in Cash and Cash Equivalents		290,098
Cash and Cash Equivalents at Beginning of Year		629,610
Cash and Cash Equivalents at End of Year	$	919,708

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, 2016

Reconciliation of Operating Loss to Net Cash Used for Operating Activities:		
Operating Loss	$	(179,793)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:		
Depreciation		32,700
Changes in Assets and Liabilities:		
Intergovernmental Receivable		27,327
Accounts Receivable		585
Prepaid Items		3,549
Accounts Payable		20,180
Accrued Wages		(48,619)
Intergovernmental Payable		(6,536)
Net Pension Liability		(27,130)
Net Cash Used for Operating Activities	$	(177,737)

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 Educational Service Center of Lake Erie West (the Sponsor) for a period commencing July 7, 2004 to June 30, 2009. The contract has since been amended and is automatically extended or renewed each year, unless terminated or non-renewed based on the terms of the contract. 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 12 non-certified and 34 certified teaching personnel who provide services to 297 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 13).

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's most significant accounting policies are described below.

A. Basis of Presentation

The School's financial statements consist of a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows. Enterprise fund reporting focuses on the determination of the change in net position, financial position, and cash flows.

B. Measurement Focus

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

Note 2 – Summary of Significant Accounting Policies (Continued)

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 position, investments with original maturities of three months or less at the time they are purchased by the School are considered to be cash equivalents.

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.

Note 2 – Summary of Significant Accounting Policies (Continued)

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	10-25 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 is a participant in the State Foundation Program. In addition, State distributes, among all public schools, a percentage of proceeds received from the tax on gross casino revenue, to be used to support primary and secondary education. Foundation funding and casino revenues are recognized as operating revenues in the accounting period in which they are earned, essentially the same as the fiscal year received. Federal and state grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements of the grants have been met.

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 include revenues paid through the State Foundation Program and Other Unrestricted Grants-In-Aid distributed from the State's proceeds of the tax on gross casino revenue. Operating expenses are necessary costs incurred to support the School's primary mission, 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 mission. Various federal and state grants, interest earnings and expense, if any, and contributions comprise the non-operating revenues and expenses of the School.

J. Accrued Liabilities Payable

The School has recognized certain liabilities on its Statement of Net Position relating to expenses, which are due but unpaid as of June 30, 2016, including (1) wages and benefits payable, consisting of salary and benefit payments made after year-end to instructional and support staff for services rendered prior to year-end, (2) accounts payable, consisting of payments due for services or goods that were rendered or received during fiscal year 2016, and (3) 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.

Note 2 – Summary of Significant Accounting Policies (Continued)

K. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School, deferred outflows of resources are reported on the statement of net position for pensions. These deferred outflows of resources related to pensions are explained in Note 7.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. This deferred inflow of resources related to pension is explained in Note 7.

L. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

M. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net Investment in Capital Assets consists of capital assets, net of accumulated depreciation, less any outstanding capital related debt. Net position is 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 when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

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.

Note 3 – Deposits (Continued)

At June 30, 2016, the carrying amount of the School's deposits was $919,708 and the bank balance was $938,315. Of the bank balance, $250,000 was collateralized under FDIC and the remaining amount was 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, 2016 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:

Funding Source	Amount
Retirement System Overpayment	$ 482
Federal Grants:	
Title I	4,504
Total Intergovernmental Receivables:	$ 4,986

Note 5 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2016 is as follows:

Capital Assets:	Beginning Balance	Additions	Deletions	Ending Balance
Leasehold Improvements	$ 109,845	$ 124,142	$ -	$ 233,987
Furniture and Equipment	456,939	4,045	-	460,984
Total Capital Assets	566,784	128,187	-	694,971
Less Accumulated Depreciation:				
Leasehold Improvements	(47,865)	(11,007)	-	(58,872)
Furniture and Equipment	(412,814)	(21,693)	-	(434,507)
Total Accumulated Depreciation	(460,679)	(32,700)	-	(493,379)
Net Capital Assets	$ 106,105	$ 95,487	$ -	$ 201,592

Note 6 – Operating Leases

The School leases land and school facilities located at 2000 North Cole Street and 150 West Grand from Cornerstone Harvest Church. For fiscal year 2016, the lease agreement contained required payments of $35,000 per month. Operating lease payments to Cornerstone Harvest Church during the fiscal year totaled $420,000. For fiscal years 2017 and 2018, lease payments will be $38,000 and $39,140 per month, respectively.

The School has an operating lease with US Bank Corporation for the use of a copiers for $920 a month. Payments made for this operating lease totaled $13,685 for the fiscal year.

The following is a schedule of the future minimum payments required under the operating leases as of June 30, 2016:

Year Ended	School Facilities	Copiers	Total
June 30, 2017	456,000	11,034	467,034
June 30, 2018	469,680	11,034	480,714
Total	$ 925,680	$ 22,068	$ 947,748

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

Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions-–between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the School's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Note 7 – Defined Benefit Plans (Continued)

Ohio Revised Code limits the Schools obligation for this liability to annually required payments. The School cannot control benefit terms or the manner in which pensions are financed; however, the School does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on the accrual basis of accounting.

Plan Description - School Employees Retirement System (SERS)

Plan Description – School non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS' fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

Note 7 – Defined Benefit Plans (Continued)

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. There was no amount allocated to the Health Care Fund.

The School's contractually required pension contribution to SERS was $49,803. Of this amount, $4,784 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – School licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. 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.

Note 7 – Defined Benefit Plans (Continued)

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. The School was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The School's contractually required contribution to STRS was $101,052 for fiscal year 2016. Of this amount, $10,286 is reported as an intergovernmental payable.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportion of the net pension liability was based on the School's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

Note 7 – Defined Benefit Plans (Continued)

	SERS	STRS	Total
Proportionate Share of the Net Pension Liability	$789,792	$1,866,086	$2,655,878
Proportion of the Net Pension Liability	0.01384100%	0.00675211%	
Pension Expense	$59,566	$115,144	$174,710

At June 30, 2016, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	$12,443	$85,950	$98,393
Change in proportionate share	32,686	-	32,686
School contributions subsequent to the measurement date	49,803	101,052	150,855
Total Deferred Outflows of Resources	$94,932	$187,002	$281,934
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	20,918	151,129	172,047
Change in proportionate share	-	97,562	97,562
Total Deferred Inflows of Resources	$20,918	$248,691	$269,609

$150,855 reported as deferred outflows of resources related to pension resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2017	$2,597	($60,024)	($57,427)
2018	2,597	(60,024)	(57,427)
2019	3,897	(60,021)	(56,124)
2020	15,120	17,328	32,448
Total	$24,211	($162,741)	($138,530)

Note 7 – Defined Benefit Plans (Continued)

Actuarial Assumptions - SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2015, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflatior	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflatior
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

Note 7 – Defined Benefit Plans (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
Total	100.00 %	

Discount Rate The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School's proportionate share of the net pension liability	$1,095,158	$789,792	$532,649

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Note 7 – Defined Benefit Plans (Continued)

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	100.00 %	

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

Note 7 – Defined Benefit Plans (Continued)

Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the School's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the School's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School's proportionate share of the net pension liability	$2,592,134	$1,866,086	$1,252,104

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 a postemployment benefit plan.

Health Care Plan – Sections 3309.375 and 3309.69 of the Ohio Revised Code 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 Ohio Revised Code provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plan.

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 pensions and benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund to be used to subsidize the cost of health care coverage. For the year ended June 30, 2016, the health care allocation is 0%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro- rated if less than a full year of service credit was earned. By statute 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 2016, the minimum compensation level was established at $23,000. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund.

Note 8 – Post-employment Benefits (Continued)

School contributions assigned to health care for the years ended June 30, 2016, 2015 and 2014 were $6,574, $11,039, and $2,890, respectively. The entire amount has been contributed for fiscal years 2015 and 2014. For fiscal year 2016, the entire amount is reported as intergovernmental payable.

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 on SERS' Health Care plan is included in its Comprehensive Annual Financial Report. The report can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

b. State Teachers Retirement System

Plan Description - STRS administers a pension plan that is comprised of: a Defined Benefit Plan, a self-directed Defined Contribution Plan, and a Combined Plan that is a hybrid of the Defined Benefit Plan and the Defined Contribution Plan.

Ohio law authorizes STRS to offer a cost-sharing, multiple employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums.

Pursuant to Chapter 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting www.strsoh.org or by requesting a copy by calling toll-free 1-888-227-7877.

Funding Policy – Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contribution rate, 1% of covered payroll was allocated to post-employment health care for the years ended June 30, 2014. Effective July 1, 2014, 0% of covered payroll was allocated to post-employment health care. The 14% employer contribution rate is the maximum rate established under Ohio law.

The School's contractually required health care contributions to STRS for fiscal years 2016, 2015 and 2014 were $0, $0, and $7,474, respectively. The entire amount has been contributed for each fiscal year.

Note 9 - Restricted Net Position

The nature of the School's net position restrictions at fiscal year-end are as follows:

Description	Amount
Food Service Program	$ 87,435
Fund Raising Activities	5,089
Federal Grants	175
	$ 92,699

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 2016, the School contracted with Ralph E. Wade Insurance Agency 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 80 percent of the monthly premiums for all selected coverage with the remaining coverage paid by the employee.

Note 11 – Contingencies

A. Grants - The School received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. The effect of any such disallowed claims on the overall financial position of the School at June 30, 2016, if applicable, cannot be determined at this time. 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 fiscal year-end.

B. Full-Time Equivalency Reviews – School Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, schools must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the School, which can extend past the fiscal year end. Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE performed such a review on the School for fiscal year 2016 and determined the School was overpaid by $747.

Note 12 – Purchased Services

Purchased service expenses during the fiscal year were as follows:

Instructional Improvement	$ 3,037
Management Services	75,660
Legal Services	1,836
Other Professional and Technical Services	124,886
Garbage Removal and Cleaning	6,323
Repairs and Maintenance Services	119,786
Rentals	432,183
Meeting Expenses	6,812
Postage	1,572
Advertising	2,876
Utilities	76,873
Transportation Services	10,369
Other Purchased Services	4,996
Total	$ 867,209

Note 13 – Fiscal Agent

Beginning July 1, 2008, the School was a party to a fiscal services agreement with Mangen & Associates (M&A) LLC, which is an education finance consulting company. The Agreement's term was 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 provided that M&A will perform treasurer and financial support services.

The School and M&A entered into a new three-year agreement, commencing July 1, 2014 and ending on June 30, 2017 for continued treasurer and financial support services. Payments totaling $75,660 were paid during the year.

The following is a summary of the services M&A will provide as Treasurer of the School, M&A

1. **Treasurer of Record**
   a. Signatory to certify availability of funds
   b. Establish appropriate checks and balances
   c. Oversee administration of payroll and payables
   d. Accommodate SERS and STRS filing and payment requirements
   e. Complete all required state and federal reports and financial EMIS data
   f. Plan and implement reserve growth plan and ORC 135 investments
   g. Prepare and oversee budget and long-term financial plan
   h. Ensure adherence to established board policies
   i. Provide equity position updates with budget
   j. Provide ongoing training and support to Director/Board in school funding and accounting
   k. Assistance with accessing and managing all government and private grants

2. **Provide an efficient and effective accounting system**
   a. Use a model purchase requisition, order, invoice, payment process
   b. Certify funds for all contracts and purchases over $500
   c. Process receipts, payables, and payroll through State Software
   d. Secure copy of capital asset and inventory list from School
   e. Present monthly fund balances for each restricted and unrestricted fund
   f. Reconcile all bank statements and USAS reports monthly
   g. Provide monthly, quarterly, mid-year and annual financial information, including ending fund balances for each fund, receipts/disbursements summary, cash flow analysis, and year-to-date budget/actual analysis.

3. **CCIP Grants Management- CCIP (Comprehensive Continuous Improvement Planning) and Competitive Grant Writing and Administration**
   a. Coordinate efforts with Heir Force Community School educational leaders as well as the Treasurer to ensure efficient, effective and proper use of CCIP funds.
   b. Provide District CCIP Plan writing/editing assistance & CCIP budget coordination
   c. Provide ongoing CCIP budget reviews with treasurer
   d. Provide assistance with any CCIP carryover allocations
   e. Provide assistance with compliance/audit (PACTS). Director will be responsible for completing PACTS self-evaluation
   f. Draft Project Cash Requests and Final Expenditure Reports for treasurer approval

Note 14 – 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. Some members of the Board of Directors of the School are also members of Cornerstone Harvest Church.

Note 15 – Change in Accounting Principles

For fiscal year 2016, the School implemented *GASB Statement No. 72 "Fair Value Measurement and Application"* which enhances comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepter valuation techniques. This statement also enhances fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. The implementation of this statement did not have an effect on the financial statements of the School.

For fiscal year 2016, the School implemented GASB Statement No. 76 "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments" which improves financial reporting be (1) raising the category of GASB Implementation Guides in the GAAP hierarchy, thus providing for broader public input on implementation guidance; (2) emphasizing the importance of analogies to authoritative literature when the accounting treatment for an event is not specified in authoritative GAAP; and (3) requiring the consideration of consistency with the GASB Concepts Statements when evaluating accounting treatments specified in non-authoritative literature. The implementation of this statement did not have an effect on the financial statements of the School.

For fiscal year 2016, the School implemented GASB Statement No. 79 "Certain External Investment Pools and Pool Participants" which establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of this statement did not have an effect on the financial statements of the School.

REQUIRED SUPPLEMENTARY INFORMATION

HEIR FORCE COMMUNITY SCHOOL
ALLEN COUNTY

SCHEDULE OF SCHOOL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

LAST 3 FISCAL YEARS (1)

	2015	2014	2013
School's Proportion of the Net Pension Liability	0.013841%	0.012989%	0.012989%
School's Proportionate Share of the Net Pension Liability	$ 789,792	$ 657,365	$ 772,414
School's Covered-Employee Payroll	$ 451,662	$ 379,571	$ 288,822
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	174.86%	173.19%	267.44%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	71.70%	65.52%

(1) Information prior to 2013 is not available.

HEIR FORCE COMMUNITY SCHOOL
ALLEN COUNTY

SCHEDULE OF SCHOOL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
STATE TEACHERS RETIREMENT SYSTEM OF OHIO

LAST 3 FISCAL YEARS (1)

	2015	2014	2013
School's Proportion of the Net Pension Liability	0.00675211%	0.00725349%	0.00725349%
School's Proportionate Share of the Net Pension Liability	$ 1,866,086	$ 1,764,300	$ 2,101,622
School's Covered-Employee Payroll	$ 728,335	$ 841,654	$ 776,085
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	256.21%	209.62%	270.80%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.10%	74.70%	69.30%

(1) Information prior to 2013 is not available.

HEIR FORCE COMMUNITY SCHOOL
ALLEN COUNTY

SCHEDULE OF SCHOOL CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

LAST NINE FISCAL YEARS (1)

	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually Required Contribution	$ 49,803	$ 59,529	$ 52,609	$ 39,973	$ 30,421	$ 30,008	$ 23,565	$ 10,760	$ 17,965
Contributions in relation to the contractually required contribution	$ 49,803	$ 59,529	$ 52,609	$ 39,973	$ 30,421	$ 30,008	$ 23,565	$ 10,760	$ 17,965
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered-employee payroll	$ 355,732	$ 451,662	$ 379,571	$ 288,822	$ 226,178	$ 238,727	$ 174,040	$ 109,350	$ 182,943
Contributions as a percentage of covered-employee payroll	14.00%	13.18%	13.86%	13.84%	13.45%	12.57%	13.54%	9.84%	9.82%

(1) Information prior to 2008 is not available.

HEIR FORCE COMMUNITY SCHOOL
ALLEN COUNTY

SCHEDULE OF SCHOOL CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM OF OHIO

LAST TEN FISCAL YEARS

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually Required Contribution	$ 101,052	$ 101,967	$ 109,415	$ 100,891	$ 90,715	$ 81,108	$ 74,620	$ 83,427	$ 74,285	$ 84,050
Contributions in relation to the contractually required contribution	$ 101,052	$ 101,967	$ 109,415	$ 100,891	$ 90,715	$ 81,108	$ 74,620	$ 83,427	$ 74,285	$ 84,050
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered-employee payroll	$ 721,802	$ 728,335	$ 841,654	$ 776,085	$ 697,808	$ 623,907	$ 574,000	$ 641,743	$ 571,423	$ 646,538
percentage of covered-employee payroll	14.00%	14.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

INDEPENDENT AUDITOR'S 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, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Heir Force Community School, Allen County, (the School) as of and for the fiscal years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated June 20, 2018.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the School's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of reasonably assuring whether the 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, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

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

Dave Yost

Dave Yost
Auditor of State
Columbus, Ohio

June 20, 2018

Dave Yost • Auditor of State

Independent Accountants' Report on Applying Agreed-Upon Procedure

Heir Force Community School
Allen County
150 West Grand Avenue
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 procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether Heir Force Community School (the School) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666 and Ohio Rev. Code Section 3314.03(a)(11)(d) for the period ended June 30, 2017. Management is responsible for complying with this requirement. The sufficiency of these procedures is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. In our report dated May 23, 2016, we observed the Board adopted an anti-harassment policy on December 12, 2007 which was amended on April 24, 2014. However, this policy did not include all matters required by Ohio Rev. Code 3313.666.

2. The Board amended the policy on October 30, 2016. We inspected the amended policy, noting it now includes all the requirements listed in Ohio Rev. Code 3313.666.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and applicable attestation engagement standards included in the Comptroller General of the United States' *Government Auditing Standards*. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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This report is to provide assistance in the evaluation of whether Heir Force Community School (the School) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666 and is not suitable for any other purpose.

Dave Yost
Auditor of State

June 20, 2018

Dave Yost • Auditor of State

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
JULY 24, 2018