



**HEIR FORCE COMMUNITY SCHOOL
ALLEN COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2006



Mary Taylor, CPA
Auditor of State

HEIR FORCE COMMUNITY SCHOOL
ALLEN COUNTY

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Governing Board:

We have audited the accompanying basic financial statements of the Heir Force Community School, Allen County, Ohio (the School), as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Heir Force Community School, Allen County, Ohio, as of June 30, 2006, and the changes in financial position and cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2007, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Mary Taylor, CPA
Auditor of State

February 8, 2007

One First National Plaza / 130 W. Second St. / Suite 2040 / Dayton, OH 45402

Telephone: (937) 285-6677 (800) 443-9274 Fax: (937) 285-6688

www.auditor.state.oh.us

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**HEIR FORCE COMMUNITY SCHOOL
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED**

The discussion and analysis of Heir Force Community School (the School) financial performance provides an overall view of the School's financial activities for the fiscal year June 30, 2006. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School's financial performance.

Financial Highlights

- Total Assets were \$482,463.
- Total Liabilities were \$283,391
- Total Net Assets were \$199,072.

USING THIS ANNUAL FINANCIAL REPORT

This report consists of three parts, the Management's Discussion and Analysis (MD&A), the basic financial statements, and notes to those statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and statement of cash flows.

Statement of Net Assets

The Statement of Net Assets answers the question, "How did we do financially during 2006?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

Table 1 provides a summary of the School's net assets at June 30, 2006 compared with fiscal year 2005.

	Net Assets	
	2006	2005
Assets		
Current Assets	\$223,698	\$270,783
Security Deposit	12,000	12,000
Capital Assets, Net	246,765	132,066
Total Assets	482,463	414,849
Liabilities		
Current Liabilities	263,539	383,613
Long-Term Liabilities	19,852	26,920
Total Liabilities	283,391	410,533
Net Assets		
Invested in Capital Assets	189,845	(15,148)
Restricted	76,279	11,589
Unrestricted	(67,052)	7,875
Total Net Assets	\$199,072	\$4,316

**HEIR FORCE COMMUNITY SCHOOL
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

The Statement of Revenues, Expenses, and Changes in Net Assets show the cost of operating expenses and the revenues offsetting those services. Table 2 shows the total amount of operating and non-operating expenses and the revenues associated with those expenses for the fiscal year. That is, it identifies the amount of operating expenses supported by State and other funding.

**Table 2
Change in Net Assets**

	<u>2006</u>	<u>2005</u>
Operating Revenue		
Foundation Payments	\$1,117,086	\$ 1,016,900
Disadvantaged Pupil Impact Aid	81,776	20,348
Special Education	37,173	33,120
Classroom Fees	19,479	22,344
Food Services	21,036	20,095
Other Operating Revenues	12,070	3,333
Total Operating Revenues	<u>1,288,620</u>	<u>1,116,140</u>
Operating Expenses		
Salaries	709,734	526,496
Fringe Benefits	157,335	113,166
Purchased Services	435,133	289,162
Materials and Supplies	227,339	265,091
Depreciation Expense	35,472	20,255
Other Operating Expense	25,048	8,932
Total Operating Expenses	<u>1,590,061</u>	<u>1,223,102</u>
Non-Operating Revenues and (Expenses)		
Operating Grants - Federal and State	491,164	125,558
Interest	77	2,970
Contributions and Donations	5,469	-
Interest and Fiscal Charges	(513)	(17,250)
Total Non-Operating Revenues and (Expenses)	<u>496,197</u>	<u>111,278</u>
Increase/(Decrease) in Net Assets	<u>\$194,756</u>	<u>\$4,316</u>

State Foundation Payments, Disadvantaged Pupil Impact Aid, and Special Education, as a whole, are the primary support for the School, representing 95.9 percent of the operating revenue. Salaries and Fringe Benefits comprise 54.5 percent of operating expenses.

The School had total revenues of \$1,785,330, and total expenses of \$1,590,574. The change in net assets for the year was an increase of \$194,756. This increase shows the School can meet its obligations.

**HEIR FORCE COMMUNITY SCHOOL
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

CAPITAL ASSETS

At the end of period June 30, 2006, the School had \$302,492 (net of \$55,727 in accumulated depreciation) invested in furniture and equipment. Table 3 shows balances at June 30, 2006:

**Table 3
Capital Assets at June 30
(Net of Depreciation)**

Furniture, Fixtures, and Equipment	\$ 246,765
Totals	\$ 246,765

DEBT

At June 30, 2006, the School had \$30,000 in outstanding promissory note debt on which principal and interest is payable upon demand, and \$26,920 in capital lease debt.

**Table 4
Outstanding Debt, at Year End**

	2006	2005
Notes Payable	\$30,000	\$246,436
Capital Leases Payable	26,920	33,988
Interest Payable	513	17,250
Total Outstanding Debt	\$57,433	\$297,674

For more information on outstanding debt, see Note 6 and Note 7 to the basic financial statements.

CURRENT FINANCIAL ISSUES

The utilization of the Lucas County Educational Service Center as the School's fiscal agent greatly improves its internal control structure and the quality of its financial records. During the fiscal year June 30, 2006, there were approximately 178 students enrolled in the School. The School receives its finances mostly from state aid. Per pupil aid for this period amounted to \$5,283 per student.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizen's with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional information contact Mr. Terry Kirkendall, Administrator, 150 Grand Avenue, Lima, Ohio or e-mail at tkirkendall1@who.rr.com.

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**HEIR FORCE COMMUNITY SCHOOL
ALLEN COUNTY**

**STATEMENT OF NET ASSETS
AS OF JUNE 30, 2006**

Assets:

Current Assets:
Cash and Cash Equivalents \$26,663

Receivables:

Intergovernmental 192,045
Accounts Receivable 2,721
Prepaid Items 2,269

Total Current Assets 223,698

Non-Current Assets:

Security Deposit 12,000
Capital Assets, Net of Accumulated Depreciation 246,765

Total Non-Current Assets 258,765

Total Assets 482,463

Liabilities:

Current Liabilities:
Accounts Payable 136,552
Accrued Wages and Benefits Payable 64,344
Note Payable 30,000
Accrued Interest Payable 513
Intergovernmental Payable 25,062
Capital Leases Payable 7,068

Total Current Liabilities 263,539

Noncurrent Liabilities:

Capital Leases Payable (Net of Current Portion) 19,852
Total Liabilities 283,391

Net Assets:

Invested in Capital Assets, Net of Related Debt 189,845
Restricted 76,279
Unrestricted (67,052)

Total Net Assets \$199,072

See Accompanying Notes to the Basic Financial Statements.

**HEIR FORCE COMMUNITY SCHOOL
ALLEN COUNTY**

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

Operating Revenues:

Foundation Payments	\$1,117,086
Disadvantaged Public Impact Aid	81,776
Special Education	37,173
Classroom Fees	19,479
Food Services	21,036
Other Operating Revenues	<u>12,070</u>
Total Operating Revenues	1,288,620

Operating Expenses:

Salaries	709,734
Fringe Benefits	157,335
Purchased Services	435,133
Materials and Supplies	227,339
Depreciation	35,472
Other Operating Expenses	<u>25,048</u>
Total Operating Expenses	<u>1,590,061</u>

Operating Loss (301,441)

Non-Operating Revenues and Expenses:

Operating Grants - Federal	474,241
Operating Grants - State	16,923
Contributions and Donations	5,469
Interest	77
Interest and Fiscal Charges	<u>(513)</u>
Total Non-Operating Revenues and (Expenses)	<u>496,197</u>

Change in Net Assets 194,756

Net Assets at Beginning of Year 4,316

Net Assets at End of Year \$199,072

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, 2006**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$1,218,211
Cash Received from Classroom Fees	19,479
Cash Received from Other Operating Sources	30,961
Cash Payments to Suppliers for Goods and Services	(600,100)
Cash Payments to Employees for Services	(706,197)
Cash Payments for Employee Benefits	(148,783)
	(186,429)
Net Cash Used for Operating Activities	(186,429)

Cash Flows from Noncapital Financing Activities:

Cash Received from Operating Grants - Federal	325,024
Cash Received from Operating Grants - State	16,923
Cash Received Contributions and Donations	5,469
	347,416
Net Cash Provided by Noncapital Financing Activities	347,416

Cash Flows from Capital and Related Financing Activities:

Cash Payments for Capital Leases	(7,068)
Cash Payments for Capital Acquisitions	(118,111)
Cash Payments for Note Debt	(216,436)
Cash Payments for Interest Payments	(17,250)
	(358,865)
Net Cash Used for Capital and Related Financing Activities	(358,865)

Cash Flows from Investing Activities:

Cash Received from Interest on Investments	77
	77
Net Decrease in Cash and Cash Equivalents	(197,801)

Cash and Cash Equivalents at Beginning of Year	224,464
Cash and Cash Equivalents at End of Year	26,663

**Reconciliation of Operating Loss
to Net Cash Used for Operating Activities:**

Operating Loss	(301,441)
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**Adjustments to Reconcile Operating Loss
to Net Cash Used for Operating Activities:**

Depreciation	35,472
Changes in Assets and Liabilities:	
Decrease in Prepaid Items	18,470
Increase in Accounts Receivable	(2,145)
Increase in Intergovernmental Receivable	(17,824)
Increase in Accounts Payable	73,466
Increase in Accrued Wages Payable	3,537
Increase in Intergovernmental Payable	4,036
Total Adjustments	115,012

Net Cash Used for Operating Activities	(\$186,429)
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See Accompanying Notes to the Basic Financial Statements.

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**HEIR FORCE COMMUNITY SCHOOL
ALLEN COUNTY**

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

1. DESCRIPTION OF THE SCHOOL DISTRICT 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 nonsectarian in its programs, admission policies, employment practices, and all other operations. The School may acquire facilities as needed and contract for any services necessary for the operation of the School.

The School was approved for operation under a contract with the Lucas County Educational Service Center (the Sponsor) for a period commencing July 7, 2004 to June 30, 2009. 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 sponsorship agreement states the Treasurer of the sponsor shall serve as the Chief Fiscal Officer of the School (See Note 13).

The School operates under the direction of a Governing Board. The Governing 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 one instructional/support facility staffed by 8 non-certificated, 21 certificated full time teaching personnel who provide services to 178 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

The School's basic financial statements consist of a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. Enterprise fund reporting focuses on the determination of the change in net assets, 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 all liabilities are included on the statements of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the School finances and meets the cash flow needs of its enterprise activities.

**HEIR FORCE COMMUNITY SCHOOL
ALLEN COUNTY**

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

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.

Revenues resulting from non-exchange transactions, in which the School receives value without directly giving equal value in return, such as grants and entitlements, are 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 first permitted; matching requirements, in which the School must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to School on 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 Revised Code Chapter 5705, unless specifically provided in the contract between the School and 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 accounted for by the School's fiscal agent, the Lucas County Educational Service Center. All cash received by the fiscal agent is maintained in separate bank accounts in the School's name. Monies for the School are maintained in these accounts or temporarily used to purchase short-term investments.

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

F. Intergovernmental Revenues

The School currently participates in the State Foundation Program, Disadvantaged Pupil Impact Aid (DPIA), and the State Special Education Program. Revenues from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements are met.

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

**HEIR FORCE COMMUNITY SCHOOL
ALLEN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Intergovernmental Revenues (Continued)

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

The School participates in various federal and state programs through the Ohio Department of Education. The programs the School participated in during fiscal year 2006 include: EMIS, SchoolNet Plus, eTECH OH PD, IDEA Part B, Title I, Title V, Title IIA, Title IID, Title IV, State and Federal Subgrants and School Lunch and Breakfast Programs. Amounts awarded under the above name programs for fiscal year 2006 totaled \$491,164.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

H. Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School does maintain a capitalization policy and does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Furniture, Fixtures and Equipment	5

I. Accrued Liabilities

The School has recognized certain expenses due but unpaid as of June 30, 2006. These expenses are reported as accrued liabilities in the accompanying financial statements, which include STRS employer's share of \$13,677, SERS employer's share of \$2,824, SERS surcharge of \$2,369, Medicare of \$830 and worker's compensation of \$5,362.

J. Net Assets

Net assets represent the difference between assets and liabilities. Invested in Capital Assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets.

**HEIR FORCE COMMUNITY SCHOOL
ALLEN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School or through external restrictions imposed by creditor, grantor, 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 assets are available.

K. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the School, these revenues are primarily foundation payments from the State. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the School. Revenues and expenses not meeting this definition are reported as non-operating.

L. Estimates

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

3. DEPOSITS AND INVESTMENTS

At fiscal year end June 30, 2006, the carrying amount of the School's deposits was \$26,663 and the bank balance was \$70,198. Based on the criteria described in GASB Statement No. 40, "*Deposit and Investment Risk Disclosure*," as of June 30, 2006, \$70,198 was covered by the Federal Depository Insurance Corporation (FDIC).

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 in excess of FDIC coverage 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 five percent of the deposits being secured.

4. RECEIVABLES

Receivables at June 30, 2006, consisted of intergovernmental and accounts receivables. All intergovernmental receivables are considered collectable in full due to the stable condition of State programs, and the current year guarantee of federal funds.

**HEIR FORCE COMMUNITY SCHOOL
ALLEN COUNTY**

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

5. CAPITAL ASSETS

Capital asset activity for the fiscal year June 30, 2006, was as follows:

	Balance 6/30/2005	Additions	Deductions	Balance 6/30/2006
Capital Assets:				
Furniture, Fixtures and Equipment	\$152,321	\$150,171		\$302,492
Totals Capital Assets	<u>152,321</u>	<u>150,171</u>		<u>302,492</u>
Less Accumulated Depreciation:				
Furnitures, Fixtures, and Equipment	(20,255)	(35,472)		(55,727)
Total Accumulated Depreciation	<u>(20,255)</u>	<u>(35,472)</u>		<u>(55,727)</u>
Capital Assets, Net	<u>\$132,066</u>	<u>\$114,699</u>	<u>\$0</u>	<u>\$246,765</u>

6. DEBT

Debt outstanding at the period ended June 30, 2006 was as follows:

	Balance 6/30/2005	Issued	Payments	Balance 6/30/2006
Note Payable:				
Cornerstone Harvest Church, Inc.	\$246,436	\$0	\$216,436	\$30,000
7.5 % - Payment upon demand				

7. CAPITAL LEASES

The School also has three capital leases for equipment with Office Equipment Finance Service. The capital lease debt outstanding at June 30, 2006 was as follows:

	Balance 6/30/2005	Issued	Payments	Balance 6/30/2006
Capital Leases Payable:				
Office Equipment Finance Service	\$ 33,988	\$ -	\$ 7,068	\$ 26,920

The schedule for future minimum long-term capital lease payments as of June 30, 2006 is as follows:

Fiscal Year Ending	Amount
2007	\$7,068
2008	7,068
2009	7,068
2010	5,716
Total Mimimum Lease Payments	<u>\$26,920</u>

**HEIR FORCE COMMUNITY SCHOOL
ALLEN COUNTY**

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

8. OPERATING LEASES

The School has an operating lease with Cornerstone Harvest Church, Inc. to lease a school facility. The term of the lease is for ten years and commenced on September 21, 2004, with required payments of \$14,000 per month. Payments made totaled \$84,000 with a total of \$70,000 outstanding in accounts payable for the fiscal year June 30, 2006.

9. RISK MANAGEMENT

A. Insurance Coverage

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 the period ending June 30, 2006, the School contracted with Great American Insurance Group for its insurance coverage which is 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

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 calculated by the State.

C. Employee Medical and Life Benefits

The School has contracted through an independent agent to provide medical and life insurance to its full time employees who work 30 or more hours per week. The School pays a portion of the monthly premiums for all selected coverage.

10. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at www.ohsers.org.

**HEIR FORCE COMMUNITY SCHOOL
ALLEN COUNTY**

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

10. DEFINED BENEFIT PENSION PLANS (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board.

The School's required contribution for pension obligations to SERS for the period ending June 30, 2006 and 2005 was \$16,380 and \$12,004; 100 percent has been contributed for both fiscal years.

B. State Teachers Retirement Systems (STRS)

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio 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. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment.

The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

**HEIR FORCE COMMUNITY SCHOOL
ALLEN COUNTY**

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

10. DEFINED BENEFIT PENSION PLANS (Continued)

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

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006 and 2005 were \$71,678, and \$54,519, respectively; 100 percent has been contributed for both fiscal years. Contributions to the DC and Combined Plans for fiscal year 2006 were \$6,537 made by the School District and \$8,683 made by the plan members.

11. POSTEMPLOYMENT BENEFITS

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

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School, this amount equaled \$5,514 for fiscal year 2006.

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

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005.

**HEIR FORCE COMMUNITY SCHOOL
ALLEN COUNTY**

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

11. POSTEMPLOYMENT BENEFITS (Continued)

In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$8,392.

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

12. PURCHASED SERVICES

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

Professional and Technical Services	\$137,841
Property Services	223,404
Travel Mileage/Meeting Expense	27,160
Communications	23,109
Utilities	21,547
Contracted Craft or Trade Services	2,072
Total Purchased Services	<u><u>\$435,133</u></u>

13. FISCAL AGENT

The School entered into a service agreement as part of its Sponsorship contract with the Treasurer of the Lucas County Educational Service Center to serve as the Chief Fiscal Officer of the School. As part of this agreement, the School shall compensate the Lucas County Educational Service Center two percent (2 percent) of the per pupil allotment paid to the School from the State of Ohio. Total contract payments of \$27,618 were paid during the year, and a liability in the amount of \$2,627 was accrued as a liability for the fiscal year June 30, 2006.

The Treasurer shall perform all of the following functions while serving as the Chief Fiscal Officer of the School:

- Maintain custody of all funds received by the School in segregated accounts separate from the Sponsor or any other Community School's funds;
- Maintain all books and accounts of the School;
- Maintain all financial records of the School and follow procedures for receiving and expending state funds, which procedures shall include that the Treasurer shall disburse money only upon receipt of a voucher signed by the Chief Administrative Officer of the School or that Officer's designee;

**HEIR FORCE COMMUNITY SCHOOL
ALLEN COUNTY**

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

13. FISCAL AGENT (Continued)

- Assist the School in meeting all financial reporting requirements established by the Auditor of Ohio;
- Invest funds of the School in the same manner as the funds of the Sponsor are invested, but the Treasurer shall not commingle the funds with any of the Sponsor or any other community school; and
- Pay obligations incurred by the School within a reasonable amount of time, not more than 14 calendar days after receipt of a properly executed voucher signed by the Chief Administrative Officer of the School so long as the proposed expenditure is within the approved budget and funds are available.

14. RELATED PARTIES

The School committed to the purchase of three copiers under a capital lease in the name of Cornerstone Harvest Church. The Cornerstone Harvest Church is also leasing copiers. The three copiers were leased under one legal agreement to obtain a better price for each copier. The President of the Board of Directors for Heir Force Community School is also a pastor of the Cornerstone Harvest Church. During the year ended 2006, the school leased classroom space from the church and also pays maintenance costs with lease of this space.

15. CONTINGENCIES

A. Grants

The School receives significant financial assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements included herein or on the overall financial position of the School at June 30, 2006.

B. School Funding

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. ODE has not yet conducted a review of the School's 2006 student enrollment data and FTE calculations. For 2006, the School does not anticipate revenue adjustments based on the results of any such review.

C. Litigation

A suit was filed in the U. S. District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The case is still pending. The effect of this suit, if any, on Heir Force Community School is not presently determinable.



Mary Taylor, CPA

Auditor of State

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

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

To the Governing Board:

We have audited the basic financial statements of the Heir Force Community School, Allen County, (the School), as of and for the year ended June 30, 2006, and have issued our report thereon dated February 8, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School's management dated February 8, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the School's management dated February 8, 2007, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management and the Governing Board. It is not intended for anyone other than these specified parties.

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

Mary Taylor, CPA
Auditor of State

February 8, 2007



Mary Taylor, CPA
Auditor of State

HEIR FORCE ACADEMY 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
MARCH 20, 2007**