HEIR FORCE COMMUNITY SCHOOL
ALLEN COUNTY

REGULAR AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30,2007

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, (the School), as of and for the year ended June 30, 2007, 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, as of June 30, 2007, 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 January 2, 2008, 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 2, 2008

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED

The discussion and analysis of Heir Force Community School's (the School) financial performance provides an overall view of the School's financial activities for the fiscal year June 30, 2007. 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 $367,371.
- Total Liabilities were $193,133.
- Total Change in Net Assets was $(24,834).

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 2007?" 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, 2007. A comparison is made to fiscal year June 30, 2006.

Table 1
Net Assets

	2007	2006
Assets		
Current Assets	$72,677	$223,698
Security Deposit	12,000	12,000
Capital Assets, Net	282,694	246,765
Total Assets	367,371	482,463
Liabilities		
Current Liabilities	180,349	263,539
Long-Term Libilities	12,784	19,852
Total Liabilities	193,133	283,391
Net Assets		
Invested in Capital Assets	262,842	189,845
Restricted	37,022	76,279
Unrestricted	(125,626)	(67,052)
Total Net Assets	$174,238	$199,072

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. A comparison is made to fiscal year June 30, 2007.

Table 2
Change in Net Assets

	2007	2006
Operating Revenue		
Foundation Payments	$1,287,207	$1,117,086
Poverty-Based Assistance		81,776
Special Education	33,715	37,173
Tuition		1,750
Classroom Fees	27,534	19,479
Food Services	21,970	21,036
Other Operating Revenue	32,974	10,320
Total Operating Revenues	1,403,400	1,288,620
Operating Expenses		
Salaries	776,578	709,734
Fringe Benefits	165,800	157,335
Purchased Services	460,878	435,133
Materials and Supplies	213,662	227,339
Depreciation Expense	73,006	35,472
Other Operating Expense	29,951	25,048
Total Operating Expenses	1,719,875	1,590,061
Non-Operating Revenues and (Expenses)		
Operating Grants - Federal and State	290,405	491,164
Contributions and Donations	1,050	5,469
Interest	186	77
Interest and Fiscal Charges		(513)
Total Non-Operating Revenues and (Expenses)	291,641	496,197
Increase/(Decrease) in Net Assets	($24,834)	$194,756

State Foundation Payments and Special Education, as a whole, are the primary support for the School, representing 94.1 percent of the operating revenue. Salaries and Fringe Benefits comprise 54.8 percent of operating expenses.

The School had total revenues of $1,695,041 and total expenses of $1,719,875. The change in net assets for the year was a decrease of $24,834. This decrease occurred because capital expenditures resulted in a significant increase in depreciation expense.

CAPITAL ASSETS

At the end of period June 30, 2007, the School had $282,694 (net of $128,733 in accumulated depreciation) invested in furniture and equipment. Table 3 shows balances at June 30, 2007 compared to fiscal year June 30, 2006:

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

	2007	2006
Furniture, Fixtures, and Equipment	$282,694	$246,765

DEBT

At June 30, 2007, the School had $19,852 in capital lease debt.

Table 4
Outstanding Debt, at Year End

	2007	2006
Capital Leases Payable	$19,852	$26,920
Notes Payable		30,000
Interest Payable		513
Total Outstanding Debt	$19,852	$57,433

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, 2007, there were approximately 216 students enrolled in the School. The School receives its finances mostly from state aid. Per pupil aid for this period amounted to $5,403 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 45801 or e-mail at tkirkendall1@woh.rr.com.

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HEIR FORCE COMMUNITY SCHOOL
ALLEN COUNTY

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2007

Assets:	
Current Assets:	
Cash and Cash Equivalents	$46,015
Receivables:	
Intergovernmental	24,398
Prepaid Items	2,264
Total Current Assets	72,677
Non-Current Assets:	
Security Deposit	12,000
Capital Assets, Net of Accumulated Depreciation	282,694
Total Non-Current Assets	294,694
Total Assets	367,371
Liabilities:	
Current Liabilities:	
Accounts Payable	82,724
Accrued Wages and Benefits Payable	72,320
Intergovernmental Payable	18,237
Capital Leases Payable	7,068
Total Current Liabilities	180,349
Non-current Liabilities:	
Capital Leases Payable (Net of Current Portion)	12,784
Total Liabilities	193,133
Net Assets:	
Invested in Capital Assets, Net of Related Debt	262,842
Restricted Net Assets	37,022
Unrestricted	(125,626)
Total Net Assets	$174,238

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, 2007

Operating Revenues:	
Foundation Payments	$1,287,207
Special Education	33,715
Classroom Fees	27,534
Food Services	21,970
Other Operating Revenues	32,974
Total Operating Revenues	1,403,400
Operating Expenses:	
Salaries	776,578
Fringe Benefits	165,800
Purchased Services	460,878
Materials and Supplies	213,662
Depreciation	73,006
Other Operating Expenses	29,951
Total Operating Expenses	1,719,875
Operating Loss	(316,475)
Non-Operating Revenues and Expenses:	
Operating Grants - Federal	266,448
Operating Grants - State	23,957
Contributions and Donations	1,050
Interest	186
Total Non-Operating Revenues and (Expenses)	291,641
Change in Net Assets	(24,834)
Net Assets at Beginning of Year	199,072
Net Assets at End of Year	$174,238

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, 2007

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities:	
Cash Received from State of Ohio	$1,338,746
Cash Received from Classroom Fees	29,834
Cash Received from Other Operating Sources	55,365
Cash Payments to Suppliers for Goods and Services	(713,906)
Cash Payments to Employees for Services	(770,242)
Cash Payments for Employee Benefits	(172,934)
Net Cash Used for Operating Activities	(233,137)
Cash Flows from Investing Activities:	
Interest Income	186
Net Cash from Investing Activities	186
Cash Flows from Noncapital Financing Activities:	
Cash Received from Operating Grants - Federal	416,271
Cash Received from Operating Grants - State	23,957
Cash Received Contributions and Donations	1,050
Net Cash Provided by Non-capital Financing Activities	441,278
Cash Flows from Capital and Related Financing Activities:	
Cash Payments for Capital Leases	(7,068)
Cash Payments for Note Debt	(30,000)
Cash Payments for Capital Acquisitions	(151,907)
Net Cash Used for Capital and Related Financing Activities	(188,975)
Net Decrease in Cash and Cash Equivalents	19,352
Cash and Cash Equivalents at Beginning of Year	26,663
Cash and Cash Equivalents at End of Year	$46,015
Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating Loss	(316,475)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation	73,006
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	2,721
Decrease in Intergovernmental Receivable	17,824
Decrease in Prepaid Items	5
Decrease in Accounts Payable	(10,856)
Increase in Accrued Wages and Benefits Payable	7,976
Decrease in Intergovermental Payable	(6,825)
Decrease in Accrued Interest Payable	(513)
Total Adjustments	83,338
Net Cash Used for Operating Activities	($233,137)

See accompanying notes to the basic financial statements.

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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, 24 certificated full time teaching personnel who provide services to 216 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.

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. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Intergovernmental Revenues (Continued)

The School participates in various federal and state programs through the Ohio Department of Education. The programs the School participated in during fiscal year 2007 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 received under the above name programs for fiscal year 2007 totaled $420,495.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2007, 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 with a capitalization threshold of $1,500. The School 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:

Description	Estimated Lives
Furniture, Fixtures and Equipment	5
Leasehold Improvements	15

I. Accrued Liabilities

The School has recognized certain expenses due but unpaid as of June 30, 2007. These expenses are reported as accrued liabilities in the accompanying financial statements, which include STRS/SERS employer's share of $14,831, SERS surcharge of $1,893, Medicare of $866 and worker's compensation of $647.

J. Compensated Absences

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities by the School District as there is a policy that unpaid sick and vacation leave will terminate at the end of each fiscal year if not used.

K. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net assets are reported as restricted when there are limitations imposed on their used 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.

L. 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.

M. 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 June 30, 2007, the carrying amount of the School's deposits was $46,015 and the bank balance was $80,401. Based on the criteria described in GASB Statement No. 40, "*Deposit and Investment Risk Disclosure,"* as of June 30, 2007, $80,401 was covered by the Federal Depository Insurance Corporation (FDIC).

4. RECEIVABLES

Receivables at June 30, 2007, consisted of intergovernmental 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.

5. CAPITAL ASSETS

Capital asset activity for the fiscal year June 30, 2007, was as follows:

	Balance 6/30/2006	Additions	Deductions	Balance 6/30/2007
Capital Assets:				
Leasehold Improvements		$69,595		$69,595
Furniture, Fixtures and Equipment	$302,492	39,340		341,832
Totals Capital Assets	302,492	108,935		411,427
Less Accumulated Depreciation:				
Leasehold Improvements		(4,640)		(4,640)
Furnitures, Fixtures, and Equipment	(55,727)	(73,006)		(128,733)
Total Accumulated Depreciation	(55,727)	(73,006)		(128,733)
Capital Assets, Net	$246,765	$35,929	$0	$282,694

6. DEBT

Debt outstanding at the period ended June 30, 2007 was as follows:

	Balance 6/30/2006	Issued	Payments	Balance 6/30/2007
Note Payable:				
Cornerstone Harvest Church, Inc.	$30,000	$0	$30,000	$0
Interest Rate 7.5 %				

7. CAPITAL LEASES

The School has three capital leases for equipment with Office Equipment Finance Service. The capital lease debt outstanding at June 30, 2007 was as follows:

	Balance 6/30/2006	Issued	Payments	Balance 6/30/2007	Due Within One Year
Capital Leases Payable:					
Office Equipment Finance Service	$26,920	$0	$7,068	$19,852	$7,068

The schedule for future minimum long-term capital lease payments as of June 30, 2007 is as follows:

Fiscal Year Ending	Amount
2008	$7,068
2009	7,068
2010	5,716
Total Mimimum Lease Payments	$19,852

8. OPERATING LEASES

The School has an operating lease with Cornerstone Harvest Church, Inc. for the lease of a school facility. The term of the lease is for ten years and commenced on September 21, 2004, with required payments of $14,000 per month. Payments made totaled $168,000 with a total of $70,000 still outstanding in accounts payable for the fiscal year June 30, 2007.

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, 2007, the School contracted with Great American Insurance Group for its insurance coverage which is as follows:

9. RISK MANAGEMENT (Continued)

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

Settlements did not exceed insurance coverage in any 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 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 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.

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 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, 2007, 2006, and 2005 was $13,211, $16,380, and $12,004; 100 percent has been contributed for fiscal years June 30, 2007, 2006, and 2005.

10. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement Systems (STRS)

The School 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.

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005 were $84,050, $71,678, and $54,519, respectively; 73.2 percent has been contributed for fiscal year June 30, 2007 and 100 percent has been contributed for 2006 and 2005. Contributions to the DC and Combined Plans for fiscal year 2007 were $1,411 made by the School District and $1,344 made by the plan members.

11. POSTEMPLOYMENT BENEFITS

The School 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 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 funded 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, 2007, the STRS Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School, this amount equaled $6,465 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) 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 fiscal 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, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. 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 2007, 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 2007 fiscal year equaled $6,000.

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 year. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available) 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, 2007, purchased service expenses were payments for services rendered by various vendors, and are as follows:

Professional and Technical Services	$196,659
Property Services	208,260
Travel Mileage/Meeting Expense	22,683
Communications	8,840
Utilities	21,324
Contracted Craft or Trade Services	3,112
Total Purchased Services	$460,878

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 $34,322 were paid during the year, and no liability was accrued as of June 30, 2007.

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;
- 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 2007, the school leased classroom space from the church and also pays maintenance costs with lease of this space.

The School also pays Terry Kirkendall for his bookkeeping services. It was noted that Terry Kirkendall is also the bookkeeper for Cornerstone Harvest Church. The School has no formal contract for services with Terry Kirkendall.

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, 2007.

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 2007 student enrollment data and FTE calculations. For 2007, the School does not anticipate revenue adjustments based on the results of any such review.

C. Litigation

A lawsuit entitled ***Beverly Blount-Hill, et al. v. State of Ohio, et al., Case #: 3:04CV197*** was filed in the U.S. District Court, Southern District of Ohio, Western Division in October 2004. The suit alleges that the funding provisions of the Ohio Community Schools Act, O.R.C. Section 3314, violate both the Ohio and Federal constitutions. If the funding scheme is determined to be unconstitutional, it could have financial ramifications for all community/charter schools. The case is still currently pending, and the effect of this suit, if any, on Heir Force Community School cannot presently be determined.

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 financial statements of the Heir Force Community School, Allen County, (the School), as of and for the year ended June 30, 2007, and have issued our report thereon dated January 2, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the School's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the School's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2007-001 through 2007-004.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the School's internal control will not prevent or detect a material financial statement misstatement.

Internal Control Over Financial Reporting
(Continued)

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, of the significant deficiencies described above, we believe finding number 2007-004 is also a material weakness.

We also noted certain internal control matters that we reported to the School's management in a separate letter dated January 2, 2008.

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 instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2007-001 and 2007-002.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the School's management in a separate letter dated January 2, 2008.

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

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 2, 2008

HEIR FORCE COMMUNITY SCHOOL
ALLEN COUNTY

SCHEDULE OF FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2007-001

Finding for Recovery – Partially Repaid

Significant Deficiency/Noncompliance - Overpayment of Wages

The Heir Force Community School approved the hiring of Amanda Cutnaw as a teacher effective August 14, 2006. Amanda Cutnaw resigned effective August 29, 2006. However, through an oversight, the School paid Ms. Cutnaw through October 13, 2006.

Daily Rate	$150.538
Days worked from 8/14/06 to 8/29/06	12 days
Salary due to employee	1,806.45
Salary Paid	4,666.68
Overpayment	$2,860.23
Less:	
STRS refund requested	$286.02
Medicare to be refunded	41.47
Net Overpayment	$2,532.74

In accordance with the foregoing facts, and pursuant to Ohio Rev.Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Amanda Cutnaw, former employee, in the amount of $2,532.74 in favor of Heir Force Community School treasury.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of the expenditure. Seward v. National Surety Corp., 120 Ohio St. 47 (1929); 1980 Op. Atty Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex rel. Village of Linndale v. Masten, 18 Ohio St. 3d 228 (1985). Public officials controlling public funds or property are secondarily liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen. Public officials will be liable if and to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property, 1980 Op. Atty Gen. No. 80-074.

Accordingly, a Finding for Recovery is hereby issued against Heir Force Community School's Executive Director, Darwin Lofton and fiscal agent, Richard Cox, and his bonding company the Travelers Casualty and Surety Company of America, jointly and severally, in the amount of $2,532.74 in favor of the Heir Force Community School treasury. Darwin Lofton and Richard Cox shall be secondarily liable for such illegal expenditures to the extent that recovery or restitution is not obtained from Amanda Cutnaw, former employee.

To improve controls over the payment of salaries and to help reduce the possibility of the School's funds being improperly spent, additional procedures should be implemented to properly approve the payroll information submitted for payment.

A payment of $100 was received on January 20, 2008 via check #784 leaving a balance of $2,432.74.

FINDING NUMBER 2007-001
(Continued)

Officials' Response:

To improve the control of payroll the Executive Director will continue to review payroll as it pertains to payroll employees, pay scale, bonuses, raises, new hires, withholdings, terminations and resignations. Once reviewed by the Executive Director the payroll will move to the School's Director of Education who will review the payroll as it pertains to auxiliary teaching staff and pay, such as substitute teachers, stipends, and after school programs. After this review the payroll will move back to the Executive Director for a final review and approval. The payroll approval will then be sent to the School's fiscal agent for disbursement.

FINDING NUMBER 2007-002

Finding for Recovery – Repaid Under Audit

Significant Deficiency/Noncompliance – Debt Overpayment

A promissory note was issued to Cornerstone Harvest Church in the amount of $246,346 to assist in the purchase of supplies and equipment to open the School. Over the term of the note, the interest amount accrued to $22,453.19 for a total due of $268,889.19; however, the School paid a total amount of $290,938 for an overpayment of $22,049. The error was due, in part, to an incorrect subtraction of principal from the balance and interest was accrued on balances that were about $20,000 overstated, along with a dual payment of the initial accrued interest.

	Beginning Principal	Principal Paid	Days	Accrued Interest	Balance	Total Payment
9/21/04	$246,436.00					
6/30/05	7.50%		283	$14,330.42	$260,766.42	-
8/10/05		$ 80,359,45	41	2,076.14	180,406.97	$ 82,435.59
9/9/05		80,850.83	31	1,149.17	99,556.14	82,000.00
11/10/06		39,781.68	62	1,268.32	59,824.46	41,000.00
4/13/06		15,357.44	154	1,893.08	44,467.01	17,250.52
5/18/06		10,680.20	35	319.80	33,786.81	11,000.00
12/8/06		28,583.73	204	1,416.27	5,203.08	30,000.00
12/8/06		27,252.00			(22,048.92)	27,252.00
		$282,815.34	810	$22,453.19		$290,938.11

Total Amount Paid	$290,938.11
Beginning Principal	(246,436.00)
Accrued Interest	(22,453.19)
Total Amount Due	(268,889.19)
Due to Heir Force	$ 22,048.92

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against the Cornerstone Harvest Church in the amount of $22,048.92 in favor of Heir Force Community School treasury. This was repaid on December 26, 2007 and January 4, 2008 in the amounts of $16,258 and $5,790.92, respectively via checks #20462 and #20474 and deposited on December 26, 2007 and January 4, 2008.

FINDING NUMBER 2007-002
(Continued)

Officials' Response:

We do not anticipate any more interest to be paid; however, for the future both the Executive Director and internal fiscal officer will review all compiler documentation. Once an agreement is determined regarding interest owed, we will proceed accordingly. If we do not agree with the compiler documentation we will meet with the compiler to confirm information and verify accuracy for payment.

FINDING NUMBER 2007-003

Significant Internal Control Deficiency - Payment of Late Fees and Finance Charges

Nineteen percent of the expenditures tested were paid late, resulting in the payment of late fees and finance charges of $971.28.

The payment of late fees and finance charges is an indication of weaknesses in the procedures over the payment process. The payment of these fees and charges could also be considered an improper use of funds since they are an avoidable expenditure.

Procedures should be developed and policy adopted that would require the invoices to be submitted to the fiscal agent and paid in a timely manner. Procedures could include a tickler file of payment due dates and means to obtain timely approvals so that the information can be submitted to the fiscal agent for payment. Discussions should be held with the fiscal agent for suggestions on the timely turnaround between submission and payment. Procedures should also be in place to provide some monitoring of the payment process and timely payments.

Officials' Response:

The School will set up a weekly filing system to collect receipts as credit card purchases are made. An online check on the account will be done to verify the use of credit cards against receipts submitted. If receipts are missing a formal request will be made to the user of the credit card to submit their receipt(s) immediately. Once all receipts have been submitted and verified they will be copied and submitted to the School's fiscal agent for payment. Copies will be held back to match against the credit card statement upon arrival.

FINDING NUMBER 2007-004

Material Weakness - Accuracy of Financial Statement Compilation

Adjustments were made to the compilation report for accrued liabilities and capital assets. Assets and liabilities both increased over $67,000 which represents a 23 percent increase in assets and a 54 percent increase in liabilities.

By not correctly reporting assets and liabilities, the financial statements would not properly reflect the position of the School and could result in erroneous assumptions by users of the financial statements.

Procedures should be implemented for monitoring the results of the compilation to provide it properly reflects the financial condition of the School. Procedures should include reviews by the governing body and comparisons of the current year information to prior year information to help identify problem areas. Supporting documentation for the compilation should also be reviewed to determine if it has been properly completed.

FINDING NUMBER 2007-004
(Continued)

Officials' Response:

The School will establish a more rigorous and accurate process of properly coding all school revenue and expenditures according to USAS prior to submitting to our fiscal agent. The School Treasurer will follow up with our compiler annually and request a draft of our financial statements to verify accuracy by comparisons of the current year's information. If adjustments or corrections need to be made the School Treasurer along with the Executive Director, and School Board will make the needed adjustments and corrections accordingly and request the compiler to adjust the necessary assets and liabilities.

Mary Taylor, CPA
Auditor of State

HEIR FORCE ACADEMY

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, 2008

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