HEIR FORCE COMMUNITY SCHOOL
ALLEN COUNTY

REGULAR AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

HEIR FORCE COMMUNITY SCHOOL
ALLEN COUNTY

TABLE OF CONTENTS

TITLE	PAGE

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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, 2008, 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 that 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, 2008, and the changes in its financial position and its 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 April 15, 2009, 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

April 15, 2009

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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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED**

The discussion and analysis of Heir Force Community School's (the School) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the School's financial performance as a whole. Readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School's financial performance.

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

Financial Highlights

Key financial highlights for the Heir Force Community School during fiscal year 2008 are as follows:

- Total net assets of the School increased $229,936 in fiscal year 2008. Ending net assets of the School were $404,174 compared with $174,238 at June 30, 2007.
- Total assets increased $146,891 from the prior year and total liabilities decreased by $83,045 during this same 12 month period.
- The School's operating income for fiscal year 2008 was $62,532 compared with an operating loss of $316,475 reported for the prior year. Total revenues increased by $127,854 while operating expenses decreased by $126,916 over those reported for the prior year.

USING THIS ANNUAL FINANCIAL REPORT

This financial report contains the basic financial statements of the School, as well as the Management's Discussion and Analysis and notes to the basic financial statements. The basic financial statements include a statement of net assets, statement of revenues, expenses and changes in net assets, and a statement of cash flows. As the School reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity, therefore the entity wide and the fund presentations information is the same.

Statement of Net Assets

The Statement of Net Assets answers the question, "How did we do financially during the fiscal year?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and 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.

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

Table 1 provides a summary of the School's net assets at June 30, 2008. A comparison is made to fiscal year June 30, 2007.

Table 1
Net Assets

	2008	2007
Assets		
Current Assets	$292,574	$72,677
Security Deposit	12,000	12,000
Capital Assets, Net	209,688	282,694
Total Assets	514,262	367,371
Liabilities		
Current Liabilities	104,372	180,349
Long-Term Libilities	5,716	12,784
Total Liabilities	110,088	193,133
Net Assets		
Invested in Capital Assets	196,904	262,842
Restricted	26,252	37,022
Unrestricted	181,018	(125,626)
Total Net Assets	$404,174	$174,238

The assets of the School increased by $146,891, which represents a 40 percent increase, from total assets reported for fiscal year 2007. The current assets at the end of fiscal year 2008 were $219,897 higher than the current assets balance at the end of fiscal year 2007.

Noncurrent assets declined by $73,006 (25%) to $221,688 during the 2008 fiscal year. Non-current financial assets for the School are comprised of $209,688 in capital assets, net of accumulated depreciation and a security deposit of $12,000.

Total liabilities of the School decreased $83,045 over those reported one year ago. The 43 percent decrease was primarily due to a meaningful decrease in accounts payables (from $82,724 in fiscal year 2007 to $18,286 in fiscal year 2008).

The total net assets reported for fiscal year 2008 improved by $229,936. Unrestricted net assets increased by $306,644 to $181,018 while restricted net assets decreased by $10,770 to $26,252. Net assets invested in capital assets, net of related debt, decreased by $65,938 to $196,904.

Table 2
Change in Net Assets

Operating Revenue		
Foundation Payments	$1,544,259	$1,287,207
Special Education		33,715
Classroom Fees	25,807	27,534
Food Services	32,748	21,970
Other Operating Revenue	52,677	32,974
Total Operating Revenues	1,655,491	1,403,400

(Continued)

Table 2
Change in Net Assets

Operating Expenses		
Salaries	756,414	776,578
Fringe Benefits	183,288	165,800
Building Rent	168,000	
Contracted Fiscal Services	17,014	
Purchased Services	174,552	460,878
Materials and Supplies	163,733	213,662
Depreciation Expense	73,006	73,006
Other Operating Expenses	56,952	29,951
Total Operating Expenses	1,592,959	1,719,875
Nonoperating Revenues/Expenses		
Operting Grants - Federal and State	166,914	290,405
Contributions and Donations	400	1,050
Interest	90	186
Total Nonoperating Revenues/Expenses	167,404	291,641
Increase (Decrease) in Net Assets	$229,936	($24,834)

Total revenue increased $127,854 for fiscal year 2008 compared with the prior fiscal year primarily due to the increased revenue from higher foundation payments from the Ohio Department of Education directly related to higher student enrollment from the previous fiscal year.

Expenses reported for fiscal year 2008 were $126,916 lower than expenses reported for fiscal year 2007 due to reductions in staff salaries, purchased services, materials and supplies. (Note: Contracted fiscal services and building rent were included in "Other purchased services" in fiscal year 2007.)

CAPITAL ASSETS

At the end of period June 30, 2008, the School had $209,688 (net of $201,739 in accumulated depreciation) invested in furniture and equipment. Table 3 shows balances at June 30, 2008 compared to fiscal year June 30, 2007:

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

	2008	2007
Furniture, Fixtures, and Equipment	$209,688	$282,694

DEBT

At June 30, 2008, the School had the following outstanding debt obligation.

Table 4
Outstanding Debt at Year End

	2008	2007
Capital Leases Payable	$ 12,784	$ 19,852

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

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

HEIR FORCE COMMUNITY SCHOOL
ALLEN COUNTY

STATEMENT OF NET ASSETS
JUNE 30, 2008

Assets:	
Current Assets:	
Cash and Cash Equivalents	$263,175
Receivables:	
Intergovernmental	29,399
Total Current Assets	292,574
Non-Current Assets:	
Security Deposit	12,000
Capital Assets, Net of Accumulated Depreciation	209,688
Total Non-Current Assets	221,688
Total Assets	514,262
Liabilities:	
Current Liabilities:	
Accounts Payable	18,286
Accrued Wages and Benefits Payable	65,303
Intergovernmental Payable	13,715
Capital Leases Payable	7,068
Total Current Liabilities	104,372
Non-current Liabilities:	
Capital Leases Payable (Net of Current Portion)	5,716
Total Liabilities	110,088
Net Assets:	
Invested in Capital Assets, Net of Related Debt	196,904
Restricted Net Assets	26,252
Unrestricted	181,018
Total Net Assets	$404,174

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, 2008

Operating Revenues:	
Foundation Payments	$1,544,259
Classroom Fees	25,807
Food Services	32,748
Other Operating Revenues	52,677
Total Operating Revenues	1,655,491
Operating Expenses:	
Salaries	756,414
Fringe Benefits	183,288
Building Rental	168,000
Contractual Fiscal Services	17,014
Other Purchased Services	174,552
Materials and Supplies	163,733
Depreciation	73,006
Other Operating Expenses	56,952
Total Operating Expenses	1,592,959
Operating Income	62,532
Non-Operating Revenues and Expenses:	
Operating Grants - Federal	151,499
Operating Grants - State	15,415
Contributions and Donations	400
Interest	90
Total Non-Operating Revenues and (Expenses)	167,404
Change in Net Assets	229,936
Net Assets at Beginning of Year	174,238
Net Assets at End of Year	$404,174

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, 2008

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities:	
Cash Received from State of Ohio	$1,544,259
Cash Received from Classroom Fees	25,807
Cash Received from Student Meals	32,748
Cash Received from Other Operating Revenues	52,677
Cash Payments to Suppliers for Goods and Services	(642,456)
Cash Payments to Employees for Services	(763,431)
Cash Payments for Employee Benefits	(187,779)
Net Cash Used for Operating Activities	61,825
Cash Flows from Investing Activities:	
Interest Income	90
Net Cash from Investing Activities	90
Cash Flows from Noncapital Financing Activities:	
Cash Received from Operating Grants - Federal	146,498
Cash Received from Operating Grants - State	15,415
Cash Received Contributions and Donations	400
Net Cash Provided by Non-capital Financing Activities	162,313
Cash Flows from Capital and Related Financing Activities:	
Cash Payments for Capital Leases	(7,068)
Net Decrease in Cash and Cash Equivalents	217,160
Cash and Cash Equivalents at Beginning of Year	46,015
Cash and Cash Equivalents at End of Year	$263,175
Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating Income	62,532
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation	73,006
Changes in Assets and Liabilities:	
Decrease in Prepaid Items	2,264
Decrease in Accounts Payable	(64,438)
Decrease in Accrued Wages and Benefits Payable	(7,017)
Decrease in Intergovermental Payable	(4,522)
Total Adjustments	(707)
Net Cash Used for Operating Activities	$61,825

See accompanying notes to the basic financial statements.

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1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Heir Force Community School (the School) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School's primary focus is to provide ability-centered education that prepares children for a successful future both academically and socially. The School guides and establishes learning experiences that assist each student in discovering and developing his or her individuality and talents in becoming a mature, responsible, civil and productive member of society. The School, which is part of the State's education program, is independent of any school district and is 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 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, 19 certificated full time teaching personnel who provide services to 237 students.

For fiscal year 2008, The School entered into a service agreement with Charter School Specialists (CSS) to serve as Chief Financial Officer. However, beginning June 1, 2008 the School terminated this agreement and entered into a service agreement with Mangen and Associates to provide certain financial and accounting services, including performing all duties required of the Treasurer of the School (Note 13).

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the 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.

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. All cash received by the fiscal agent is maintained in separate bank accounts in the School's name.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Intergovernmental revenues associated with the Foundation Program totaled $1,544,259. The School also participates in various federal and state programs through the Ohio Department of Education. The programs the School participated in during fiscal year 2008 include: EMIS, eTECH OH PD, Title I, Improving Teacher Quality (Title IIA), Technology (Title IID), Safe and Drug-Free Schools (Title IV-A), Innovative Programs (Title V), Special Education (Part B IDEA), State and Federal Subgrants and School Lunch and Breakfast Programs. Amounts received under the above name programs for fiscal year 2008 totaled $161,913.

G. 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

H. Accrued Liabilities

The School has recognized certain liabilities on its statement of net assets relating to expenses, which are due but unpaid as of June 30, 2008, including:

Wages payable – salary payments made after year-end to instructional and support staff for services rendered prior to the end of June, but whose payroll continues into the summer months based on the fiscal year 2008 contract.

Intergovernmental payable – payment for the employer's share of the retirement contribution, Medicare and Workers' Compensation associated with services rendered during fiscal year 2008 that were paid in the subsequent fiscal year.

I. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 had no assets restricted by enabling legislation. 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 by the School's primary mission. For the School, operating revenues include revenues paid through the State Foundation Program. Operating expenses are necessary costs incurred to support the School's primary mission, including salaries, benefits, purchased services, materials and supplies and depreciation.

Non-operating revenues and expenses are those that are not generated directly by the School's primary mission. Various federal and state grants, interest earnings, if any, and payments made to the School by other instructional entities for use of the School's instructional staff comprise the non-operating revenues of the School. Interest and fiscal charges on outstanding obligations, as well as gain or loss on capital asset disposals, if any, comprise the non-operating expenses.

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

Custodial credit risk is the risk that in the event of bank failure, the School will not be able to recover the deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent 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.

3. DEPOSITS AND INVESTMENTS (Continued)

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

At June 30, 2008, the carrying amount of the School's deposits was $263,175 and the bank balance was $291,428. Of the bank deposits, $100,000 was collateralized under FDIC insurance and the remaining $163,175 were uncollateralized and uninsured. Although all statutory requirements for the deposit of public money had been followed, non-compliance with federal requirements could potentially subject the School to a successful claim by the FDIC.

4. RECEIVABLES

All Intergovernmental receivables are considered collectable in full due to the stable condition of Federal programs. A summary of the principal items of receivables at June 30, 2008 is as follows:

Grants Receivables	Amount
Federal Grants	
Title I	$16,495
Title IIA	1,423
Title IID	444
Title IV	899
Title V	330
IDEA-B	9,708
Total	$29,399

5. CAPITAL ASSETS

Capital asset activity for the fiscal year June 30, 2008, was as follows:

	Balance 6/30/2007	Additions	Deductions	Balance 6/30/2008
Capital Assets:				
Leasehold Improvements	$ 69,595			$ 69,595
Furniture, Fixtures and Equipment	341,832			341,832
Totals Capital Assets	411,427			411,427
Less Accumulated Depreciation:				
Leasehold Improvements	(4,640)	($ 4,640)		(9,280)
Furniture, Fixtures, and Equipment	(124,093)	(68,366)		(192,459)
Total Accumulated Depreciation	(128,733)	(73,006)		(201,739)
Capital Assets, Net	$282,694	($73,006)	$0	$209,688

6. CAPITAL LEASES

The School has three capital leases for equipment with Office Equipment Finance Service. The capital lease debt outstanding at June 30, 2008 was as follows:

	Balance 6/30/2007	Issued	Payments	Balance 6/30/2008	Due Within One Year
Capital Leases Payable:					
Office Equipment Finance Service	$19,852	$0	$7,068	$12,784	$7,068

The schedule for future minimum long-term capital lease payments as of June 30, 2008 is as follows:

Fiscal Year Ending	Amount
2009	$ 7,068
2010	5,716
Total Minimum Lease Payments	$12,784

7. 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 an additional payment of $70,000 that redeemed an outstanding accounts payable at June 30, 2007.

8. 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, 2008, 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

Settlements did not exceed insurance coverage in any of the past three years, and there has been no significant reduction in insurance coverage from the prior year.

8. RISK MANAGEMENT (Continued)

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.

9. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement Systems

Plan Description - 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 (888) 227-7877, 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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. 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.

9. DEFINED BENEFIT PENSION PLANS (Continued)

Funding Policy - For the fiscal year ended June 30, 2008, 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 2007, 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, 2008, 2007, and 2006 were $74,285, $84,050, and $71,678, respectively; 100 percent has been contributed for all years. Contributions to the DC and Combined Plans for fiscal year 2008 were $107 made by the School and $2,191 made by the plan members.

B. School Employees Retirement System

Plan Description - The School, on behalf of the employees at 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.

Funding Policy - 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 2008, 9.16 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 up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007, and 2006 was $16,758, $12,370, and $15,172; 100 percent has been contributed for all years.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security. No employees at the School pay into Social Security.

10. POST-EMPLOYMENT BENEFITS

A. State Teachers Retirement System

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

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund.

The School's contributions for health care for the fiscal years ended June 30, 2008, 2007 and 2006 were $5,722, $6,465, and $5,514 respectively.

B. School Employee Retirement System

Plan Description – The School participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy – State statute permits SERS to fund health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care, compared to 3.32 percent of covered payroll for 2007. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility, and retirement status.

10. POST-EMPLOYMENT BENEFITS (Continued)

The School's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were $7,647, $4,107, and $5,295 respectively; 100 percent has been contributed for all years.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2008, 2007, and 2006, this actuarially required allocation was .66, .68, and .78 percent of covered payroll, respectively. The School's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 were $1,207, $841, and $1,208 respectively; 100 percent has been contributed for all years.

11. PURCHASED SERVICES

For the fiscal year June 30, 2008, purchased service expenses were payments for services rendered by various vendors, and are as follows:

Professional and Technical Services	$ 79,317
Property Services	38,244
Travel Mileage/Meeting Expense	13,513
Communications	13,709
Utilities	28,077
Contracted Craft or Trade Services	1,692
Total Purchased Services	$174,552

12. RESTRICTED NET ASSETS

At June 30, 2008 the School reported restricted net assets totaling $26,252. The nature of the net asset restrictions are as follows:

State specific educational program grants	$ 9,906
Federal specific educational program grants	16,346
Total	$26,252

13. FISCAL AGENT

The School entered into a service agreement with the Treasurer of the Charter School Specialists (CSS) to serve as the Chief Fiscal Officer of the School. As part of this agreement, the School shall compensate the CSS two percent (2%) of the per pupil allotment paid to the School from the State of Ohio. Total contract payments of $17,014 were paid during the year, and no liability was accrued as of June 30, 2008.

13. FISCAL AGENT (Continued)

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 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 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.

As of June 1, 2008, the School was party to a fiscal services agreement with Mangen and Associates (M&A) School Resource Center, which is an education finance consulting company. The Agreement's term is for a twelve month period beginning July 1st and may be terminated by either party, with or without cause, by giving the other party ninety days written notice to terminate. The Agreement provides that M&A School Resource Center will perform treasurer and financial support services. The total fee paid for these services during fiscal year 2008 was $0.

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 2008, 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. 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, 2008.

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. The results of this review could result in state funding being adjusted. For fiscal year 2008, the ODE review resulted in a payment to the school in the amount of $1,633.

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, 2008, and have issued our report thereon dated April 15, 2009. 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 a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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 deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2008-001.

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. We believe the significant deficiency described above as finding number 2008-001 is a material weakness.

We also noted certain matters that we reported to the School's management in a separate letter dated April 15, 2009.

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*.

We did note certain noncompliance or other matters that we reported to the School's management in a separate letter dated April 15, 2009.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 15, 2009

HEIR FORCE COMMUNITY SCHOOL
ALLEN COUNTY

SCHEDULE OF FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

FINDING NUMBER 2008-001

Material Weakness - Financial Statement Accuracy

Presentation of financial statements is designed to provide an accurate accounting of the financial condition of the entity to the public. Part of the underlying support for financial statements is the trial balances. The trial balances are used as a tool to record the current year's cash activity for the respective line items. To accurately present the current year financial statements the reversing, cash transaction, adjusting entries, and prior year-end fund balance must be accurate. The trial balance should be completed and supported by the individual fund trial balances. During the audit of the financial statements and the trial balances the following problems were noted:

- The accounts payable reported were overstated by $19,922 or 109 percent and represented a decrease in amount from $38,208 to $18,286, which also affected the corresponding expenditure line items. Expenditures paid during the month of June 30, 2008 had been booked as the year-end accounts payable; however, during the search for unrecorded encumbrances, $18,286 in expenditures were found that should have been booked as accounts payable.

- The accrued wages and benefits were understated by $21,431 or 49 percent and represented an increase in amount from $43,872 to $65,303 which also affected the corresponding salaries expenditure line item. Negative wages had been included in the accrued wages work sheet which caused the error in reporting.

- The intergovernmental payable was overstated by $21,587 or 157 percent and represented a decrease in amount from $35,302 to $13,715, which also affected the corresponding fringe benefits expenditure line item.

By not correctly reporting liabilities and expenditures, the financial statements would not properly reflect the position of the School and could result in erroneous assumptions by users of the financial statements. In addition, the determination and rectification of these discrepancies by audit staff results in additional audit time and costs. The above adjustments have been made to the presented financial statements.

During the process of accumulating data in preparation of the trial balances and compilation of financial statements, the information should be reviewed for accuracy and completeness. In addition, management should review the compilation to verify the accuracy and completeness of the financial statements and note disclosures, the trial balances, and supporting work papers. Procedures should be implemented for monitoring the results of the compilation to determine that 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 potential errors. Supporting documentation for the compilation should also be reviewed to determine if it has been properly completed.

Official's Response:

The Academy's Board has secured the services of Mangen and Associates for the full 2008-2009 fiscal year to ensure the accounting data recorded during the fiscal year is consistent with the end-of-year financial statements.

HEIR FORCE COMMUNITY SCHOOL
ALLEN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2008

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2007-001	Finding For Recovery - Overpayment of Wages in the amount of $2,532.74	Partially	As of 2/23/09, the balance due was $1,732.74.
2007-002	Finding For Recovery - Debt Overpayment in the amount of $22,048.92	Yes	
2007-003	Payment of Late Fees and Finance Charges	Yes	
2007-004	Accuracy of Financial Statement Compilation	No	Modified and Repeated as Finding 2008-001

Mary Taylor, CPA
Auditor of State

HEIR FORCE COMMUNITY SCHOOL

ALLEN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 12, 2009

88 E. Broad St. / Fourth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us