HEIR FORCE COMMUNITY SCHOOL
ALLEN COUNTY

INITIAL AUDIT

FOR THE YEAR ENDED JUNE 30, 2005

Auditor of State
Betty Montgomery

HEIR FORCE COMMUNITY SCHOOL
ALLEN COUNTY

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Governing Board:

We have audited the accompanying basic financial statements of Heir Force Community School, Allen County, (the School), as of and for the year ended June 30, 2005, 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 the School, as of June 30, 2005, 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 December 6, 2005, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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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.

Betty Montgomery

Betty Montgomery
Auditor of State

December 6, 2005

HEIR FORCE COMMUNITY SCHOOL
ALLEN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD SEPTEMBER 1, 2004 TO JUNE 30, 2005
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 period September 1, 2004 to June 30, 2005, the initial period of operation. 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 $414,849.
- Total Liabilities were $410,533.
- Total Net Assets were $4,316.

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 2005?" 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, 2005. As this is the initial period of operation, no comparison is made to prior year information:

(Table 1)
Net Assets

Assets	
Current Assets	$270,783
Security Deposit	12,000
Capital Assets, Net	132,066
Total Assets	414,849
Liabilities	
Current Liabilities	383,613
Noncurrent Liabilities	26,920
Total Liabilities	410,533
Net Assets	
Invested in Capital Assets	(15,148)
Restricted	11,589
Unrestricted	7,875
Total Net Assets	$4,316

The Statement of Revenues, Expenses, and Changes in Net Assets shows 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 year. That is, it identifies the amount of operating expenses supported by State and other funding. Again, since this is the initial period of operation, no comparison is made to the prior year.

Table 2
Change in Net Assets

Operating Revenue	
Foundation Payments	$1,016,900
Disadvantaged Pupil Impact Aid	20,348
Special Education	33,120
Classroom Fees	22,344
Food Services	20,095
Other Operating Revenue	3,333
Total Operating Revenues	1,116,140
Operating Expenses	
Salaries	526,496
Fringe Benefits	113,166
Purchased Services	289,162
Materials and Supplies	265,091
Depreciation Expense	20,255
Other Operating Revenue	8,932
Total Operating Expenses	1,223,102
Non-Operating Revenues and (Expenses)	
Operating Grants	125,558
Contributions and Donations	2,970
Interest Expense	(17,250)
Total Non-Operating Revenues and (Expenses)	111,278
Increase/(Decrease) in Net Assets	$4,316

State Foundation Payments, Disadvantaged Pupil Impact Aid, and Special Education, as a whole, are the primary support for the School, representing 96 percent of the operating revenue. Salaries and Fringe Benefits comprise 52 percent of operating expenses.

The School had total revenues of $1,244,668, and total expenses of $1,240,352. The change in net assets for the year was an increase of $4,316. This increase shows the School has met its obligations.

CAPITAL ASSETS

At the end of period June 30, 2005, the School had $132,066 (net of $20,255 in accumulated depreciation) invested in furniture and equipment. Table 3 shows balances at June 30, 2005:

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

Furniture, Fixtures, and Equipment	$132,066

For more information on capital assets, see Note 5 to the basic financial statements.

DEBT

At June 30, 2005 the School had $246,436 in outstanding note debt, on which the principal and interest is payable upon demand, and $33,988 in capital lease debt. Table 4 summarizes the debt outstanding.

Table 4
Outstanding Debt, at Year End

	2005
Notes Payable	$246,436
Capital Lease Payable	33,988
Interest Payable	17,250
Total Outstanding Debt	$280,424

For more information on outstanding debt, see Notes 6 and 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 period September 1, 2004 to June 30, 2005, there were approximately 202 students enrolled in the School. The School receives its financial support mostly from state aid. Per pupil aid for this period amounted to $5,169 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, Bookkeeping Agent, 150 Grand Avenue, Lima, Ohio or e-mail at shunem@bizwohrr.com.

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HEIR FORCE COMMUNITY SCHOOL
ALLEN COUNTY

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2005

Assets:	
Current Assets:	
Cash and Cash Equivalents	$224,464
Receivables:	
Accounts	576
Intergovernmental	25,004
Prepaid Items	20,739
Total Current Assets	270,783
Non-Current Assets:	
Security Deposit	12,000
Capital Assets, Net of Accumulated Depreciation	132,066
Total Non-Current Assets	144,066
Total Assets	414,849
Liabilities:	
Current Liabilities:	
Accounts Payable	31,026
Accrued Wages and Benefits Payable	60,807
Intergovernmental Payable	21,026
Note Payable	246,436
Interest Payable	17,250
Capital Lease Payable	7,068
Total Current Liabilities	383,613
Noncurrent Liabilities	
Capital Lease Payable	26,920
Total Liabilities	410,533
Net Assets:	
Invested in Capital Assets, Net of Related Debt	(15,148)
Restricted	11,589
Unrestricted	7,875
Total Net Assets	$4,316

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, 2005

Operating Revenues:	
Foundation Payments	$1,016,900
Disadvantaged Pupil Impact Aid	20,348
Special Education	33,120
Classroom Fees	22,344
Food Services	20,095
Other Operating Revenues	3,333
Total Operating Revenues	1,116,140
Operating Expenses:	
Salaries	526,496
Fringe Benefits	113,166
Purchased Services	289,162
Materials and Supplies	265,091
Depreciation	20,255
Other Operating Expenses	8,932
Total Operating Expenses	1,223,102
Operating Loss	(106,962)
Non-Operating Revenues and Expenses:	
Operating Grants	125,558
Contributions and Donations	2,970
Interest and Fiscal Charges	(17,250)
Total Non-Operating Revenues and (Expenses)	111,278
Change in Net Assets	4,316
Net Assets at Beginning of Year	
Net Assets at End of Year	$4,316

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, 2005

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities:	
Cash Received from State of Ohio	$1,070,368
Cash Received from Classroom Fees	21,794
Cash Received from Other Operating Sources	23,402
Cash Payments to Suppliers for Goods and Services	(549,280)
Cash Payments to Employees for Services	(465,689)
Cash Payments for Employee Benefits	(95,758)
Net Cash Provided by Operating Activities	4,837
Cash Flows from Noncapital Financing Activities:	
Cash Received from Operating Grants - Federal	66,604
Cash Received from Operating Grants - State	33,950
Cash Received Contributions and Donations	2,970
Net Cash Provided by Noncapital Financing Activities	103,524
Cash Flows from Capital and Related Financing Activities:	
Security Deposit	(12,000)
Proceeds From Notes	246,436
Principal and Interest Payments on Capital Lease	(2,898)
Cash Payments for Capital Acquisitions	(115,435)
Net Cash Provided by Capital and Related Financing Activities	116,103
Net Increase in Cash and Cash Equivalents	224,464
Cash and Cash Equivalents at Beginning of Year	
Cash and Cash Equivalents at End of Year	224,464
Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating Loss	(106,962)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation	20,255
Changes in Assets and Liabilities:	
Increase in Accounts Receivable	(576)
Increase in Prepaid Items	(20,739)
Increase in Accounts Payable	31,026
Increase in Accrued Wages Payable	60,807
Increase in Intergovernmental Payable	21,026
Total Adjustments	111,799
Net Cash Provided by Operating Activities	$4,837

See Accompanying Notes to the Basic Financial Statements.

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1. DESCRIPTION OF THE 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. This is the initial period of operations.

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 nine member 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 14 non-certificated, 18 certificated full time teaching personnel who provide services to 202 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. The Academy uses Enterprise accounting to track and report on its financial activities. 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.

Revenues 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, the State Disadvantaged Pupil Impact Aid (DPIA) Program, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The School participates in various federal and state programs through the Ohio Department of Education. The programs the School participated in during fiscal year 2005 include: EMIS, IDEA Part B, Title I, Title V, Title IIA, Title IID and School Lunch and Breakfast Programs.

Amounts awarded under the above named programs for fiscal year 2005 totaled $1,195,926.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005, 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

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 not maintain a capitalization policy and does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

Description	Estimated Lives
Computers	5
Other Furniture, Fixtures and Equipment	5

I. Accrued Liabilities

The School has recognized certain expenses due but unpaid as of June 30, 2005. These expenses are reported as accrued liabilities in the accompanying financial statements, which includes STRS employer's share of $8,763, SERS employer's share of $5,411, SERS surcharge of $1,727, Medicare of $932 and worker's compensation of $4,193.

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. The deficit in the Invested in Capital Assets Net of Related Debt is the result of depreciation being charged prior to any capital debt payments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditor, grantor, or laws or regulations of other governments. The Academy applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

K. Operating Revenues and Expenses

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

L. Estimates

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

3. DEPOSITS AND INVESTMENTS

State statues require the classification of the monies held by the School into three categories:

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the School Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive monies are public deposits that the Governing Board has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including but not limited to passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim monies must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings accounts including but not limited to passbook accounts.

Interim monies are to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. DEPOSITS AND INVESTMENTS (Continued)

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

4. Bonds and other obligations of the State of Ohio, or Ohio local governments;

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

6. The State Treasurer's investment pool (STAR Ohio);

7. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

Deposits - Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of the School's cash and deposits is provided by the Federal Deposit Insurance Corporation as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize all public deposits. The face value of the pooled collateral must equal at least 105 percent of public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third parties of the financial institution.

At fiscal year-end, the carrying amount of the School's deposits was $224,464. $100,000 of the School's deposits was insured by Federal depository insurance. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures,* as of June 30, 2005, $184,212 of the School's bank balance of $284,212 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School's name.

The School has 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 Academy or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments - The School had no investments.

HEIR FORCE COMMUNITY SCHOOL
ALLEN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD SEPTEMBER 1, 2004 TO JUNE 30, 2005
(Continued)

4. RECEIVABLES

Receivables at June 30, 2005, consisted of intergovernmental and accounts receivables. All intergovernmental receivables are considered collectable in full due to the stable condition of State programs, and the current year guarantee of federal funds. A summary of the principal items of receivables follows:

Receivables	Amount
Intergovernmental:	
IDEA-B '05	$7,495
Title I '05	14,736
Title V '05	75
Title IIA '05	1,765
Title IID '05	933
Total Intergovernmental Receivables	$25,004

5. CAPITAL ASSETS

Capital asset activity for the period September 1, 2004 to June 30, 2005, was as follows:

	Balance 9/1/2004	Additions	Deductions	Balance 6/30/2005
Capital Assets:				
Furniture, Fixtures and Equipment	$ -	$ 152,321	$ -	$ 152,321
Totals Capital Assets	-	152,321	-	152,321
Less Accumulated Depreciation:				
Furnitures, Fixtures, and Equipment	-	(20,255)	-	(20,255)
Total Accumulated Depreciation	-	(20,255)	-	(20,255)
Capital Assets, Net	$ -	$ 132,066	$ -	$ 132,066

6. DEBT

Debt outstanding at June 30, 2005 was as follows:

	Balance 9/1/2004	Issued	Payments	Balance 6/30/2005
Note Payable:				
Cornerstone Harvest Church, Inc.	$ -	$ 246,436	$ -	$ 246,436
Matures 10/10/2005 7.5%				

The amount due at June 30, 2005, to retire the note was $263,686, which includes $17,250 in accrued interest.

7. CAPITAL LEASES

The School also has three capital leases for equipment with Office Equipment Finance Service. The capital lease debt outstanding at June 30, 2005 was as follows:

	Balance 9/1/2004	Issued	Payments	Balance 6/30/2005
Capital Lease Payable:				
Office Equipment Finance Service	$ -	$ 36,886	$ 2,898	$ 33,988

The schedule for future minimum long-term capital lease payments as of June 30, 2005 is as follows:

Year	Amount
2005	$7,068
2006	7,068
2007	7,068
2008	7,068
2009	7,068
2010	5,716
Total	$33,988

8. OPERATING LEASES

The School has an operating lease with Cornerstone Harvest Church, Inc. to lease the school facility. Payments made totaled $140,000 for the period September 1, 2004 to June 30, 2005. The lease term is for ten years with a renewable five year option.

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. For the fiscal year ended June 30, 2005, the School contracted with the Great American Insurance Group for its insurance coverage 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

The School owns no real estate, but leases a facility located at 150 W. Grand Avenue, Lima, Ohio. (See Note 8)

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.

9. RISK MANAGEMENT (Continued)

C. Employee Medical and Life Benefits

The School has contracted through an independent agent to provide employee 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 (medical and life insurance).

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 43215-3476 or by calling (614) 222-5853.

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 2005, 10.57 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 statutory maximum amounts, by the SERS Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal year ended June 30, 2005 was $12,004. Eighty-one percent has been contributed for fiscal year 2005.

B. State Teachers Retirement System

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 or by calling (614) 227-4090.

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 times an actuarially determined annuity factor.

10. DEFINED BENEFIT PENSION PLANS (Continued)

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 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, 2005, 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. Contribution rates are established by the State Teachers Retirement Board, upon recommendation 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 the DB Plan for the fiscal year ended June 30, 2005 was $45,776. Ninety-six percent has been contributed for fiscal year 2005. Contributions to the DC and Combined Plans for fiscal year 2005 were $626 made by the School and $596 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 (STRS), 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.

11. POSTEMPLOYMENT BENEFITS (Continued)

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled $3,521 for fiscal year 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004, (the latest information available) the balance in the Fund was $3.1 billion. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were $268,739,000 and STRS had 111,853 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 premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

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, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. 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 2005, the minimum pay was established at $27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2005 fiscal year, School paid $5,627 to fund health care benefits, including the surcharge.

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 annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004 (the latest information available), were $223,443,805 and the target level was $335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of $300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

12. 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 2005, the school leased classroom space from the church and also pays maintenance costs with the lease of this space. (See Notes 7 and 8).

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%) of the per pupil allotment paid to the School from the State of Ohio. Total contract payments of $19,270 were paid during the year.

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. PURCHASED SERVICES

For the period September 1, 2004 to June 30, 2005, purchased service expenses were payments for services rendered by various vendors, and are as follows:

Professional and Technical Services	$87,366
Property Services	177,173
Travel	2,143
Communications	9,626
Utilities	12,302
Contracted Craft or Trade Service	552
Total Purchased Services	$289,162

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 the financial statements or on the overall financial position of the School at June 30, 2005.

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 Academy's 2005 student enrollment data and FTE calculations. For 2005, the Academy does not anticipate revenue adjustments based on the results of any such review.

C. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001 alleging Ohio's Community (i.e., Charter) school's program violates the state Constitution and state laws. On April 21, 2003 the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral arguments occurred on November 29, 2005. The effect of this suit, if any, on the School is not presently determinable.

Auditor of State
Betty Montgomery

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 W. Grand Avenue
Lima, Ohio 45801

To the Governing Board:

We have audited the basic financial statements of the Heir Force Community School, Allen County, (the School), as of and for the year ended June 30, 2005, and have issued our report thereon dated December 6, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School's management dated December 6, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

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

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

Betty Montgomery
Auditor of State

December 6, 2005

Auditor of State
Betty Montgomery

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HEIR FORCE COMMUNITY SCHOOL

ALLEN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
DECEMBER 30, 2005