HARMONY COMMUNITY SCHOOL
HAMILTON COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2004

Auditor of State
Betty Montgomery

HARMONY COMMUNITY SCHOOL
HAMILTON COUNTY

TABLE OF CONTENTS

TITLE | **PAGE**

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Harmony Community School
Board of Directors
1580 Summit Avenue
Cincinnati, Ohio 45237

To the Board of Directors (Board):

We have audited the accompanying Basic Financial Statements of the Harmony Community School, Hamilton County, Ohio (the School), as of and for the year ended June 30, 2004, as listed in the table of contents. These basic 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, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with auditing principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2004, the School implemented a new financial reporting model, as required by the provisions of Governmental Standards Board Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2006 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 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, consisted 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

February 22, 2006

HARMONY COMMUNITY SCHOOL
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

The discussion and analysis of the Harmony Community School's financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2004. 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 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 new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Government issued June, 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

- In total, net assets decreased $6,652, which represents a 3 percent decrease from 2003. While their was an increase in students and a related increase in state foundation monies and Disadvantaged Pupil Instructional Aid, the overall decrease was primarily due to a decrease in federal and state grant revenue.

- Total assets decreased $354,616, which represents a 10 percent increase from 2003. This decrease was primarily due to a decrease in cash correlating with the decrease in revenue.

- Liabilities decreased $347,963, which represents a 12 percent decrease from 2003. Accounts payable decreased by $219,999, accrued payable decreased by $77,472 and mortgage payable decreased by $63,384. While intergovernmental payable increased by $111,197, line of credit payable decreased by $92,056 which represents a 257% decrease from 2003. The decrease in accounts and accrued payables was primarily due to prompt payment of outstanding invoices at June 30th.

Using this Financial Report

This report consists of three parts, the 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 a statement of cash flows.

Statement of Net Assets

The Statement of Net Assets answers the question, "How did we do financially during 2004?" 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 takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

Table 1 provides a summary of the School's net assets for fiscal year 2004 and fiscal year 2003:

(Table 1)
Net Assets

	2004	2003
Assets		
Current Assets	$137,606	$352,225
Capital Assets, Net	2,899,733	3,039,730
Total Assets	3,037,339	3,391,955
Liabilities		
Current Liabilities	236,408	520,988
Non-Current Liabilities	2,583,765	2,647,149
Total Liabilities	2,820,173	3,168,137
Net Assets		
Invested in Capital Assets	2,899,733	3,039,730
Unrestricted	(2,682,567)	(2,815,912)
Total Net Assets	$217,166	$223,818

Total assets decreased $354,616. This decrease was primarily due to a decrease in cash correlating with the decreases in federal and state grants and other operating revenue. Cash decreased by $198,403 from 2003. Prepaid Items decreased by $16,215. Capital Assets, net of depreciation decreased by $139,997.

Table 2 shows the changes in net assets for fiscal year 2003 and fiscal year 2004, as well as a listing of revenues and expenses.

(Table 2)
Change in Net Assets

	2004	2003
Operating Revenues:		
Foundation Payments	$3,302,512	$3,153,621
Disadvantaged Pupil Impact Aid	21,122	20,720
State Special Education	794,406	729,948
Other Receipts	42,633	126,682
Non-Operating Revenues:		
Federal and State Grants	60,454	280,295
Total Revenues	4,221,127	4,311,266
Operating Expenses:		
Salaries	2,102,808	1,920,129
Fringe Benefits	780,574	597,936
Purchased Services	744,880	542,425
Materials and Supplies	217,479	374,158
Depreciation	172,005	222,736
Other Expenses	633	330,622
Non-Operating Expenses:		
Interest Expense	209,400	203,166
Total Expenses	4,227,779	4,191,172
Increase (Decrease) in Net Assets	($6,652)	$120,094

While net assets decreased $6,652 from 2003 to 2004, the amount of change in net assets from the beginning to the end of each year decreased $126,746. This was primarily due to the completion of Federal and Sate grants resulting in a $219,841 decrease of those revenues from 2003. There was a decrease in total revenues of $90,139 and an increase in total expenses of $36,607 from 2003. Community Schools receive no support from tax revenues.

The expense for salaries increased by $182,679 and the expense for fringe benefits increased by $182,638 from 2003. This was primarily due to an increase in staff during fiscal year 2004. Although purchased services expense increased by $202,455 from 2003, materials and supplies expense and other expenses decreased by $154,679 and $329,989 respectively. These amounts are due to a decrease in the purchase of textbooks and library books and better classification of expenses from 2003. Depreciation expense decreased by $50,731. Assets, mainly computers, were fully depreciated in FY2003, thus causing the decrease in depreciation expense.

Capital Assets

At the end of fiscal year 2004 the School had $3,254,840 invested in building and building improvements, furniture, fixtures, and equipment, instruments and textbooks which represented a decrease of $358,838 from 2003. This decrease was primarily due to the deletion of obsolete computer hardware and software. Table 3 shows fiscal year 2004 and fiscal year 2003:

(Table 3)
Fixed Assets at June 30, 2004
(Net of Depreciation)

	2004	2003
Building and Building Improvements	3,064,887	3,064,887
Furniture, Fixtures, and Equipment	121,366	388,157
Instruments	6,049	6,049
Textbooks	62,538	154,585
Less: Accumulated Depreciation	(355,107)	(573,948)
Totals	$2,899,733	$3,039,730

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

Current Financial Issues

The Harmony Community School was formed in 1998. During the 2003-2004 school year, there were approximately 606 students enrolled in the School. The School receives its finances mostly from state aid. Per pupil aid for fiscal year 2004 amounted to $5,450 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 Robert Steigerwald, Treasurer at Harmony Community School, 1580 Summit Avenue, Cincinnati, Ohio 45237 or via telephone at (513) 921-5260.

Harmony Community School
Statement of Net Assets
June 30, 2004

Assets	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	$ 132,180
Prepaid Items	5,426
Total Current Assets	137,606
Non-Current Assets:	
Capital Assets:	
Depreciable Capital Assets, Net	2,899,733
Total Non-Current Assets	2,899,733
Total Assets	$3,037,339
Liabilities	
Current Liabilities:	
Accounts Payable	30,330
Accrued Wages and Benefits	17,212
Intergovernmental Payable	140,577
Interest Payable	12,435
Line of Credit Payable	35,854
Mortage Payable:	
Due Within One Year	68,645
Total Current Liabilities	305,053
Non-Current Liabilities	
Mortage Payable:	
Due In More Than One Year	2,515,120
Total Non-Current Liabilities	2,515,120
Total Liabilities	2,820,173
Net Assets	
Invested in Capital Assets	2,899,733
Unrestricted	(2,682,567)
Total Net Assets	$217,166

See accompanying notes to the basic financial statements

Harmony Community School

Statement of Revenues, Expenses and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2004

Operating Revenues	
Foundation Payments	3,302,512
Disadvantaged Pupil Impact Aid	21,122
Special Education Aid	757,900
Parity Aid	36,506
Other Revenues	42,633
Total Operating Revenues	4,160,673
Operating Expenses	
Salaries	2,102,808
Fringe Benefits and Payroll Taxes	780,574
Purchased Services	744,880
Materials and Supplies	217,479
Depreciation	172,005
Other	633
Total Operating Expenses	4,018,379
Operating Income	142,294
Non-Operating Revenues and (Expenses)	
Other Federal and State Grants	60,454
Interest Expense	(209,400)
Total Non-Operating Revenues and Expenses	(148,946)
Change in Net Assets	(6,652)
Net Assets Beginning of Year	223,818
Net Assets End of Year	$217,166

See accompanying notes to the basic financial statements

Harmony Community School
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2004

Increase (Decrease) in Cash and Cash Equivalents:	
Cash Flows from Operating Activities:	
Cash Received from Foundation Payments	$3,302,512
Cash Received from Disadvantaged Pupil Impact Aid	21,122
Cash Received from State of Ohio	624,347
Cash Received from Others	42,633
Cash Payments to Suppliers for Goods and Services	(962,359)
Cash Payments to Employees for Services and Benefits	(2,883,382)
Cash Payments to Other Operating Expenses	(633)
Net Cash Provided by Operating Activities	144,240
Cash Flows from Noncapital Financing Activities:	
Other Non-Operating Expenses	(155,548)
Cash from Federal and State Subsidies	230,513
Net Cash Provided by Noncapital Financing Activities	74,965
Cash Flows from Capital and Related Financing Activities:	
Payments for Capital Acquisitions	(47,159)
Mortgage Payable Payments	(272,784)
Capital Lease Payable Payments	(4,700)
Short Term Loan Payments	(909)
Line of Credit Payments	(92,056)
Net Cash Used for Noncapital Financing Activities	(417,608)
Net Increase in Cash and Cash Equivalents	(198,403)
Cash and Cash Equivalents at Beginning of Year	330,583
Cash and Cash Equivalents at End of Year	$132,180
	(continued)

See accompanying notes to the basic financial statements

Harmony Community School
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2004
(continued)

Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating Income	$142,294
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation	172,005
Changes in Assets and Liabilities:	
Decrease in Prepaid Items	16,215
Decrease in Accounts Payable	(219,999)
Increase in Intergovernmental Payable	111,197
Decrease in Accrued Payables	(77,472)
Total Adjustments	1,946
Net Cash Provided by Operating Activities	$144,240

See accompanying notes to the basic financial statements

NOTE 1 – DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Harmony Community School, Hamilton County, Ohio (the School), is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to provide an appropriate educational facility and program for all age groups and to provide instruction in courses, which meter general educational requirements compatible with and approved by the State of Ohio. The School qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code. The School is independent of any school district. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the school.

The creation of the School was initially proposed to the State Board of Education, the sponsor, on June 9, 1998 for a three year contract. The State Board of Education approved the proposal and entered into a contract with the Board of Directors of the School. By-laws of the School were amended to allow for the creation of the Management Cabinet of the School. Members of the Cabinet were appointed by the Board of Directors. The contract provided for the commencement of School operations on September 16, 1998. During the fiscal year ended 2002, a contract extension for two years was executed. Then during the fiscal year ended 2004, the School executed a new contract with a new sponsor, Lucas County, for one year effective July 1, 2004.

The fiscal operations of the School are under a seven-member Management Cabinet, which is directed by the Executive Director. This Cabinet is responsible for formulating policies regarding fiscal operations and monitoring the expenditure of funds. The Chief Financial Officer of the School directs the financial affairs of the School including accounting and insurance, and is responsible for reporting the progress of the School against those responsibilities.

NOTE 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 governmental nonprofit organizations. 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 November 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Basis Of Presentation

The School's basic financial statements consist of a statement of net assets, a statement of revenue, 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.

Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

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 statement 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 meet 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. Expenses are recognized at the time they are incurred.

Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is 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 the School on a reimbursement basis.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 not prescribe a budgetary process for the School; therefore no budgetary information is presented in the financial statements.

E. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, 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.

F. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The School maintains a capitalization threshold of five hundred dollars. 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 except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Depreciation of furniture and equipment, computer software, and textbooks is computed using the straight-line method over an estimated useful life of five years. Improvements to capital assets are depreciated over the remaining useful lives of the related capital assets.

Buildings and Building Improvements	1 - 50 years
Furniture, Fixtures and Equipment	3 - 20 years
Vehicles	3 - 10 years

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Intergovernmental Revenues

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

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been 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 expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

The School also participates in other various Federal and/or State Programs through the Ohio Department of Education. Revenue received from these programs is recognized as non-operating revenue in the accounting period in which all eligibility requirements have been met.

Amounts awarded under the above named programs for the 2004 school year totaled $818,354.

H. Net Assets

Net assets represent the difference between assets and liabilities. Assets, net of related debt 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.

I. 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 and sales for food service. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the School. Revenues and expenses not meeting this definition are reported as non-operating.

J. Contributions of Capital

Contributions of capital arise from outside contributions of capital assets, or from grants or outside contributions of resources restricted to capital acquisition and construction. At the year ended June 30, 2004, the School did not have any capital contributions.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. 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.

NOTE 3 - DEPOSITS

All monies received by the School are accounted for by the School's Chief Financial Officer. All cash received by the Chief Financial Officer is held in an interest bearing central bank account. Total cash for the School is presented as Equity in Pooled Cash and Cash Equivalents on the accompanying Statement of Net Assets.

At fiscal year end, the carrying amount of the School's deposits was $132,180, and the available bank balance was $192,503. Of the bank balance, $100,000 was insured by the Federal Depository Insurance Corporation. The School had uninsured and uncollateralized deposits at June 30, 2004, of $92,503 contrary to Ohio Revised Code requirements.

Investments: The School had no investments at June 30, 2004, or during the fiscal year.

NOTE 4 - RECEIVABLES

The School had no receivables at June 30, 2004.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004:

	Balance 6/30/03	Additions	Deletions	Balance 6/30/04
Business-Type Activity				
Capital Assets Not Being Depreciated				
Land	$0	$0	$0	$0
Capital Assets Being Depreciated				
Land Improvements	0	0	0	0
Buildings and Improvements	3,064,887	0	0	3,064,887
Furniture, Fixtures, and Equipment	548,791	47,159	405,997	189,953
Vehicles	0	0	0	0
Total Capital Assets Being Depreciated	3,613,678	47,159	405,997	3,254,840
Less Accumulated Depreciation:				
Land Improvements	0	0	0	0
Buildings and Improvements	(112,977)	(122,952)	0	(235,929)
Furniture, Fixtures, and Equipment	(460,971)	(49,053)	(390,846)	(119,178)
Vehicles	0	0	0	0
Total Accumulated Depreciation	(573,948)	(172,005)	(390,846)	(355,107)
Total Capital Assets Being Depreciated, Net	3,039,730	(124,846)	15,151	2,899,733
Business-Type Activity Capital Assets, Net	$3,039,730	($124,846)	$15,151	$2,899,733

NOTE 6 - RISK MANAGEMENT

A. Property and Liability

The School is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the School contracted with Indiana Insurance Companies for general liability and property insurance.

NOTE 6 - RISK MANAGEMENT (continued)

Coverages are as follows:

Building ($1,000 deductible)	$3,639,000
Boiler and Machinery	Included in Building
Business Personal Property ($1,000 deductible)	200,000
Educational Errors and Omissions ($5,000 each loss)	2,000,000
General Liability:	
Per occurrence	1,000,000
Total per year	2,000,000

Settled claims have not exceeded this commercial coverage since formation of School. There has been no significant change in insurance coverage from last year.

B. Workers' Compensation

The School pays the State Workers' 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.

NOTE 7 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

NOTE 7 - DEFINED BENEFIT PENSION PLANS (continued)

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 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003 and 2002 were $54,426, $187,946 and $44,365; 100 percent has been contributed for fiscal years 2004, 2003 and 2002.

B. State Teachers Retirement System of Ohio

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. 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.

NOTE 7 - DEFINED BENEFIT PENSION PLANS (continued)

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, 2004, plan members were required to contribute 9.3 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 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, 2004, 2003 and 2002 were $106,542, $52,569 and $66,453; 100 percent has been contributed for fiscal years 2004, 2003 and 2002.

NOTE 8 - POSTEMPLOYMENT BENEFITS

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

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Ohio Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled $50,467 for fiscal year 2004.

NOTE 8 – POSTEMPLOYMENT BENEFITS (continued)

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2002, (the latest information available) the balance in the Fund was $3.011 billion. For the year ended June 30, 2002, net health care costs paid by STRS Ohio were $354,697,000 and STRS Ohio had 105,300 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. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

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, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. 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 2004, the minimum pay was established at $25,400. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled $84,112.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2002 (the latest information available), were $182,946,777 and the target level was $274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of $335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

NOTE 9 - EMPLOYEE BENEFITS

A. Employee Medical, Dental, and Vision Benefits

The School has contracted with a private carrier to provide employee medical/surgical benefits. The School pays 100% of the monthly premium.

B. Insurance Benefits

The School provides life and short-term and long-term disability insurance to all employees through a private carrier. Coverage is provided for all certified and non-certified employees.

NOTE 10 – LONG TERM OBLIGATIONS

The School's long-term obligations at June 30, 2004 were as follows:

Long-Term Obligations	Principal Outstanding 6/30/03	Additions	Deductions	Principal Outstanding 6/30/04	Amounts Due in One Year
Mortgage-Park National	$ 1,960,593	$ 0	$ 47,467	$ 1,913,126	$ 51,407
Mortgage-Jewish Federation	686,556	0	15,917	670,639	17,238
Total	$2,647,149	$0	$63,384	$2,583,765	$68,645

Principal and interest requirements to retire long-term debt outstanding at June 30, 2004 are as follows:

	Mortgage Obligations	
Years	Principal	Interest
2005	68,645	204,139
2006	74,343	198,441
2007	80,514	192,270
2008	87,196	185,588
2009	94,433	178,351
2010-2014	1,761,304	582,373
2015-2019	225,819	125,481
2020-2022	191,511	25,197
Totals	2,583,765	1,691,840

NOTE 11 – LINE OF CREDIT

In 2002, the School entered into a line of credit with Provident Bank in with a limit of $150,000 at an interest rate of 6.75 percent. As of June 30, 2004, $35,854 was borrowed against the limit. Principal and interest are immediately due and payable on demand. Monthly payments shall be equal to accrued and unpaid financial charges and are to be paid each month until the principal is paid. The line of credit is collateralized by the School's inventory, chattel paper, accounts, equipment and general intangibles, assignment of warrant payment from the State of Ohio.

The line of credit is evidenced by a promissory note. Notes are statutorily limited to maturing at the end of the year unless the debt issued obligates or is collateralized by the State monies received by the School under Ohio Law. The line of credit above issued during the year does not specifically exclude State foundation monies and extended beyond year-end, contrary to State statutes.

NOTE 12 - CONTINGENCIES

A. Grants

The School received financial assistance from 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the School. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2004.

B. State Funding

The Ohio Department of Education reviews enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews ensure the schools are reporting accurate student enrollment data of the State, upon which state foundation funding is calculated. For fiscal year 2004, the review was completed in January 2005. For the School, there was an insignificant variance between the amount received to date and the final payment equaling $4,871. This variance will have no effect on the financial standing of the School.

C. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools 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 argument occurred November 29, 2005. The effect, if any, of this suit on the School is not presently determinable.

NOTE 13 – PURCHASED SERVICES

Purchased Services during fiscal year 2004 were comprised of the following:

Utilities	$264,100
Professional Fees	385,375
Student Development	63,248
Transportation	32,157
	$744,880

NOTE 14 – RELATED PARTIES

The spouse of the current Executive Director is employed as a social worker and is paid $38,500 annually. The spouse of the former Executive Director is employed as the guidance counselor and is paid $54,000 annually.

NOTE 15 – SUBSEQUENT EVENTS

The School executed a new charter with a new sponsor, Lucas County, effective July 1, 2004.
An apartment building was purchased in 2005 for $300,000. A legal settlement totaling $50,000 was paid in 2005.

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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*

Harmony Community School
Hamilton County
1580 Summitt Avenue
Cincinnati, Ohio 45237

To the Board of Directors:

We have audited the basic financial statements of the Harmony Community School, Hamilton County, Ohio (the School), as of and for the year ended June 30, 2004, and have issued our report thereon dated February 22, 2006. We conducted our audit in accordance with the 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 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.

The reportable condition is described in the accompanying schedule of findings as item 2004-001. In a separate letter to the School's management dated February 22, 2006, we reported matters involving internal control over financial reporting we did not deem a reportable condition.

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 an instance of noncompliance that we are required to report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2004-002.

In a separate letter to the District's management dated February 22, 2006, we reported other matters related to noncompliance we deemed immaterial.

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We intend this report solely for the information and use of the audit committee, management, Board of Directors, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

Betty Montgomery

Betty Montgomery
Auditor of State

February 22, 2006

HARMONY COMMUNITY SCHOOL
HAMILTON COUNTY

SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2004

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

FINDING NUMBER 2004-001

Monitoring Controls

Monitoring control comprise regular management and supervisory activities established to oversee whether management's objectives are being achieved, covering operational and legal compliance, as well as financial control objectives. Effective monitoring controls should identify unexpected results or expectations (including significant compliance exceptions), investigate underlying causes, and take corrective action.

Monitoring controls may be in the nature of ongoing activities or periodic separate evaluation by either management or an internal audit function. They can relate to a specific transaction cycle or can be in a more overview nature.

Monitoring controls should assist management in detecting material misstatements in financial or other information and can include:

- Regular review of budget and actual figures;
- Regular review of financial report summaries of sufficient detail (monthly detailed revenue and expenditure reports);
- Review of key performance indicators;
- Review of revenues/expenditures with independently accumulated information (budgets, past performance, etc.)
- Review of unusual or significant items, long outstanding items, etc.;
- Identification of unusual fluctuations;
- Monitoring that grant monies are used in accordance with grant requirements;
- Ensuing an adequate segregation of duties exist, and;
- Review of monthly reconciliations.

The lack of an effective monitoring control system increases the risk that management will not detect material misstatements, fraud or theft in a timely manner.

During the audit period, the Board of the School did not monitor the financial activity of the School. The School should develop and implement a monitoring control system to ensure that material misstatements to not occur.

As of July 1, 2004, the School executed a new contract with a new sponsor, Lucas County. The new School Board indicated that they are monitoring financial information and reporting.

FINDING NUMBER 2004-002

Noncompliance / Reportable Condition

Ohio Rev. Code, Section 135.18(A), provides that the treasurer of a political subdivision must require the depository to provide as security an amount equal to the funds on deposit at all times. Such security may consist of federal deposit insurance, surety company bonds, or pledged securities, among others. The School had uninsured and uncollateralized deposits at June 30, 2004 in the amount of $92,503. The School needs to obtain insurance or a security agreement with their financial institutions to provide as security an amount equal to the funds on deposit at all times.

HARMONY COMMUNITY SCHOOL
HAMILTON COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2004

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***:
2003-001	The School did not comply with Ohio Dept. of Education Charter, Section 7 – the School had not established controls over the purchasing function. Specifically, expense request forms were not approved by the Executive Director.	Yes	
2003-002	The School did not comply with Ohio Dept. of Education Charter, Section 7 – the School had not established controls over the payroll function. Specifically, the Board did not approve employee hires or pay rates and the Director did not approve payroll disbursements.	Yes	
2003-003	The School has not implemented as effective monitoring control system.	No	Reissued as Finding Number 2004-001

Auditor of State
Betty Montgomery

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HARMONY COMMUNITY SCHOOL DISTRICT

HAMILTON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 9, 2006