HARMONY COMMUNITY SCHOOL
HAMILTON COUNTY

FINAL AUDIT

FOR THE PERIOD JULY 1, 2008 THROUGH JANUARY 31, 2009

Mary Taylor, CPA
Auditor of State

HARMONY COMMUNITY SCHOOL
HAMILTON COUNTY

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INDEPENDENT ACCOUNTANTS' REPORT

Harmony Community School
Hamilton County
c/o Buckeye Community Hope Foundation
3021 East Dublin-Granville Rd.
Columbus, Ohio 43231

To the Board of Directors:

We were engaged to audit the accompanying basic financial statements of Harmony Community School, Hamilton County, Ohio (the School), as of and for the period ended January 31, 2009, as listed in the table of contents. These financial statements are the responsibility of the School's management.

The School has not fully paid the Auditor of State for services provided more than one year prior to our opinion date. AICPA Code of Professional Conduct, ET Section 191 considers this circumstance to impair an auditor's independence. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity because Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. Ohio Revised Code § 117.13 also includes provisions to collect unpaid audit fees including negotiating a schedule for payment of the amount due, seeking payment through the office of budget and management or through the county auditor of the county in which the local public office is located.

The School did not make material adjustments to the financial statements, including the Notes to the financial statement, or their accounting records. Excluding the adjustments necessary to net assets discussed in the following paragraph, the following adjustments for the current year were not made to the financial statements:

Intergovernmental Payable	$(297,015)
Capital Assets	77,436
Foundation overpayment	(2,620,995)
Capital Leases Payable	(21,258)
School Foundation	224,040
Special Foundation	(189,996)
Parity Aid	(11,485)
Federal and State Grants	(4,483)
Fringe Benefits	(10,000)
Purchased Services	4,306
Other Expenses	(407)
DPIA Revenue	(11,975)

In addition, prior audit adjustments were not made by the School which resulted in the beginning July 1, 2008 net assets to be overstated by ($3,410,420).

Auditing Standards Section 337 requires us to obtain audit evidence as to the existence of a condition, situation, or set of circumstances indicating an uncertainty as to the possible loss to an entity arising from litigation, claims, and assessments, the period in which the underlying cause for legal action occurred, the degree of probability of an unfavorable outcome, and the amount or range of potential loss. The School's attorney letter did not provide sufficient audit evidence to satisfy us concerning the accounting for and reporting of pending and threatened litigation, claims, and assessments.

The notes to the financial statements did not include disclosures required by GASB Cod. 2300.106 and 2300.107 for significant violations of finance-related legal or contractual provisions and actions taken to address such violations, significant effects of subsequent events, related-party transactions, capital lease future minimum payments, conditions and events giving rise to substantial doubt about the government's ability to continue as a going concern and purchased services.

The School did not provide sufficient audit evidence to determine completeness of accounts payables as of January 31, 2009.

In our opinion, because of the matters discussed in paragraphs two through seven above, the scope of our audit was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to above for the period ended January 31, 2009.

The School was placed on probation by its sponsor, Buckeye Community Hope Foundation, in May 2006. The School ceased operations effective December 31, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2010, 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 engagement.

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. The School did not present all disclosure and analysis required by accounting principles generally accepted in the United States of America. Also, the School did not include accurate 2008 or 2009 amounts in the accompanying Management's Discussion and Analysis. However, we did not audit the information and express no opinion on it.

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 21, 2010

The discussion and analysis of the Harmony Community School's (the "School") financial performance provides an overall review of the School's financial activities for the period ending January 31, 2009. 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 statement 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 present in the MD&A.

Financial Highlights

- The School ceased operation on January 31, 2009.

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 2008?" 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 the period January 31, 2009 and fiscal year 2008:

(Table 1)
Net Assets

	January 2009	2008
Assets		
Current Assets	$0	$4,989
Capital Assets, Net	2,365,230	2,433,331
Total Assets	2,365,320	2,438,320
Liabilities		
Current Liabilities	245,362	862,646
Long Term Liabilities	2,218,812	2,178,631
Total Liabilities	2,464,174	3,041,277
Net Assets		
Invested in Capital Assets	150,584	150,584
Unrestricted	(249,528)	(753,541)
Total Net Assets	($98,944)	($602,957)

Total assets decreased $73,090 mainly due to annual depreciation of the School's building. The School ceased operations on January 31, 2009. Comparative statements between the two periods are not necessary as all the remaining assets and liabilities will be used to offset each other than any remaining liabilities will be forfeited.

Table 2 shows the changes in net assets for the period January 31, 2009 to fiscal year 2008, as well as a listing of revenues and expenses.

(Table 2)
Change in Net Assets

	January 2009	2008
Operating Revenues:		
State Foundation	$1,119,955	$2,294,647
DPIA	0	79,197
Special Education	0	584,737
Parity Aid	0	38,381
Other Operating Revenue	25,693	106,664
Non-Operating Revenues:		
Interest	1,257	4,960
Federal and State Grants	241,310	1,028,160
Total Revenues	1,388,215	4,136,726
Operating Expenses:		
Salaries and wages	441,140	1,812,500
Fringe Benefits and Payroll Taxes	0	856,133
Purchased Services	232,675	897,573
Materials and Supplies	31,262	340,851
Deprecation	68,101	116,295
Other	0	38,678
Non-Operating Expenses:		
Loss on Disposal of Capital Assets	0	0
Interest Expense	111,024	195,668
Total Expenses	884,202	4,257,688
Change in Net Assets	504,013	(120,962)
Beginning Net Assets	(602,957)	(481,995)
Ending Net Assets	($98,944)	($602,957)

Since the School ceased operations on January 31, 2009, the comparison between the two periods is not possible. The School's foundation revenue decreased dramatically as the Ohio Department of Education cut the funding based on decreased student population. With the decreased revenue and the requirement of repayment of the findings, the total outlays against the total inflows made the decision to close the School.

Capital Assets

At the period ending January 31, 2009, the School had $2,365,230 invested in building and building improvements, furniture, fixtures, and equipment, and vehicles which represented a decrease of $68,101 from 2008. For more information on the School's capital asset refer to note 5 of the financial statements.

Debt Administration

The School retired $55,086 of the mortgage payable during the period ending January 31, 2009. For further information on the School's obligations, refer to note 10 of the financial statements.

Current Financial Issues

The Harmony Community School was formed in 1998. During 2008, the School received a significant finding for recovery from the State Auditor's Office that the School and Ohio Department of Education (ODE) have worked on payment terms. The ODE was requested the School repay the finding within twelve to fifteen months. The School does not have the financial capability to repay that amount and operate the School as required. The School has made the decision to cease operations as of December 31, 2008 given the ODE requirement payment structure.

Contracting the School's Financial Management

The School is no longer in operations. For any information please contact the Ohio Department of Education or the Auditor of State's office.

HARMONY COMMUNITY SCHOOL
HAMILTON COUNTY

STATEMENT OF NET ASSETS
AS OF JANUARY 31, 2009

Assets:	
Noncurrent assets:	
Capital assets, net depreciation	$ 2,365,230
Total noncurrent assets	2,365,230
Total Assets	2,365,230
Liabilities:	
Current liabilities	
Payables:	
Loans	3,500
Line of Credit	99,898
Outstanding Checks over Bank Balances	141,964
Total current liabilities	245,362
Non-Current liabilities	
Due in More than One Year	2,218,812
Total Liabilities	2,464,174
Net Assets:	
Invested in capital assets, net of related debt	150,584
Unrestricted	(249,528)
Total net assets	$ (98,944)

See accompanying notes to the basic financial statements

HARMONY COMMUNITY SCHOOL
HAMILTON COUNTY

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
FOR THE PERIOD ENDED JULY 1, 2008 THROUGH JANUARY 31, 2009

Operating Revenues:	
State foundation	$ 1,119,955
Charges for services	13,468
Other operating revenues	12,225
Total operating revenues	1,145,648
Operating Expenses:	
Salaries and wages	441,140
Purchased Services	232,675
Materials and supplies	31,262
Depreciation	68,101
Total operating expenses	773,178
Operating Income	372,470
Nonoperating revenues (expenses):	
Federal and State grants	241,310
Interest Revenue	1,257
Interest Expense	(111,024)
Total nonoperating revenues (expenses)	131,543
Change in net assets	504,013
Net assets, beginning of year	(602,957)
Net assets, end of year	$ (98,944)

See accompanying notes to the basic financial statements

HARMONY COMMUNITY SCHOOL
HAMILTON COUNTY

STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED JULY 1, 2008 THROUGH JANUARY 31, 2009

Cash flows from operating activities:	
Cash received from State of Ohio - Foundation	$ 1,119,955
Cash received from other operating revenues	28,792
Cash payments for personal services	(910,350)
Cash payments for suppliers for goods and services	(429,347)
Net cash used by operating activities	(190,950)
Cash flows from noncapital financing activities:	
Repayment of Short Term Loan	(12,500)
Cash received from state and federal grants	243,200
Net cash used by capital and related financing activities	230,700
Cash flows from capital and related financing activities:	
Principal paid on capital leases	(2,849)
Principal paid on mortgage payable	(41,253)
Principal paid on line of credit	(13,833)
Total interest paid on outstanding obligations	(117,233)
Net cash used by capital and related financing activities	(41,007)
Cash flows from investing activities:	
Investment income	1,257
Net change in cash and cash equivalents	-
Cash and Cash Equivalents at beginning of year	-
Cash and Cash Equivalents at end of year	-

Reconciliation of operating loss to net cash used by operating activities:

Operating loss	372,470
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	68,101
Change in assets and liabilities:	
Accounts receivable	3,099
Accounts payable	(456,936)
Accrued wages and benefits	(125,630)
Intergovernmental payable	(52,054)
Net cash used by operating activities	$ (190,950)

See accompanying notes to the basic financial statements

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NOTE 1 – DESCRIPTION OF THE SCHOOL AND THE REPORTING ENTITY

Harmony Community School, Hamilton County Ohio (the School), is a non-profit corporation established 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 provides 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 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 2005, the School executed a contract with a new sponsor, Lucas County, which was effective from January 2005 through June 30, 2005. Effective in June 2006, the School is now sponsored by Buckeye Community Hope.

The fiscal operations of the School are under a five-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 Treasurer 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.

Effective January 31, 2009, the School ceased operations due to the requirements from the Ohio Department of Education (ODE) related to findings for recovery from prior year audits. The School worked with ODE for several months trying to come to a resolution to allow the School to continue operations. In the end, the Board decided it was not feasible for the School to repay the findings and continue operations in the timeline ODE required.

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 revenues, expenses and changes in net assets, and a statement of cash flows.

Enterprise fund reporting focuses on the determination of the change in net assets, financial position and cash flows.

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 cost (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 revenues, expenses and 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 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. Cash

All cash received by the School is maintained in demand deposit accounts. The School had no investments during the fiscal year.

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 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:

Building and Building Improvements	30 years
Furniture, Fixtures and Equipment	3 years
Vehicles	5 years

G. Intergovernmental Revenues

The School currently participates in the State Foundation Program, State Special Education Program, State Parity Aid, and the State Disadvantage 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expense 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 period ending January 31, 2009 totaled $1,361,265.

H. Net Assets

Net assets represent the difference between assets and liabilities. Assets, net of related debt, consist 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. 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. 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 Treasurer is held in a 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 January 31, 2009, the carrying amount of the School's deposits was ($141,964), and the available bank balance was $0. The School moved money into an escrow account that is to be used to allow the School to close the financial records and transfer student records to the new schools. Any remaining escrow balance at June 30, 2009 will be transferred back to the State Department of Education.

NOTE 4 – RECEIVABLES

The School had no intergovernmental receivables at January 31, 2009.

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the period ending January 31, 2009:

	Balances 6/30/08	Additions	Deletions	Balance 1/31/09
Capital Assets Being Depreciated				
Building and Improvements	$3,000,000	$0	$0	$3,000,000
Furniture, Fixtures, and Equipment	175,065	0	0	175,065
Vehicles	62,640	0	0	62,640
Total Capital Assets Being Depreciated	3,237,705	0	0	3,237,705
Less Accumulated Depreciation				
Buildings and Improvements	(600,000)	(58,333)	0	(658,333)
Furniture, Fixtures, and Equipment	(145,406)	(2,451)	0	(147,857)
Vehicles	(58,968)	(7,317)	0	(66,285)
Total Accumulated Depreciation	(804,374)	(68,101)	0	(872,475)
Total Capital Assets Being Depreciated, Net	$2,433,330	($68,101)	$0	$2,365,230

Any assets that the School had at January 31, 2009 were either sold and will be used by the creditors of the School to repay the outstanding debt obligations that exist on the building.

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 the period ending January 31, 2009, the School contracted with Indiana Insurance Companies for general liability and property insurance.

Coverages are as follows:

Building ($1,000 deductible)	$13,907,500
Boiler and Machinery	Included in Building
Business Personal Property ($1,000 deductible)	200,000
Ordinances and Laws	1,250,000
Educational Errors and Omissions ($25,000 deductible)	2,000,000
Automobile ($1,000 deductible)	1,000,000
General Liability:	
Per occurrence	1,000,000
Total per year	2,000,000

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

NOTE 6 – RISK MANAGEMENT (continued)

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. State Employees Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2008, 9.16 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were $46,958, $64,457 and $96,731 respectively; 80 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

B. State Teachers Retirement System

Plan Description - The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. 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 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

NOTE 7 – DEFINED BENEFIT PENSION PLANS (continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For the fiscal year ended June 30, 2008, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2007, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007, and 2006 were $216,151, $119,106 and $162,523 respectively; 91 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

NOTE 8 – POSTEMPLOYMENT BENEFITS

A. School Employee Retirement System

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

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care.

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

The School District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were $21,428, $20,348, and $31,269 respectively; 80 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2008, this actuarially required allocation was 0.66 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal year ended June 30, 2008 (first year required disclosure) was $3,383, 80 percent has been contributed for fiscal year 2008.

B. State Teachers Retirement System

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

NOTE 8 – POSTEMPLOYMENT BENEFITS (continued)

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were $16,627, $9,162, and $12,502 respectively; xx percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

NOTE 9 – EMPLOYEE BENEFITS

At January 31, 2009, the School had terminated all employees effective December 31, 2008 except for a few employees that were prepaid to close out the School building. The School cancelled all insurance benefits to the employees effective on December 31, 2008.

NOTE 10 – LONG TERM OBLIGATIONS

The School's long term obligations for the period ending January 31, 2009 were as follows:

Long Term Obligations	Principal Outstanding 6/30/08	Additions	Deductions	Principal Outstanding 1/31/09	Amounts Due in One Year
Mortgage-Park National	$1,680,450	$0	$41,253	$1,639,197	$0
Mortgage-Jewish Federation	592,614	0	13,833	578,781	0
Loans-National City	99,898	0	0	99,898	0
Capital Leases Payable	3,683	0	2,849	834	0
Total	$2,376,645	$0	$57,935	$2,318,710	$0

The School was not able to remove the existing obligation before ceasing operations. The assets of the School will be used to repay any obligations of the School but it is unlikely that those assets will be able to satisfy the outstanding balance at January 31, 2009.

NOTE 11 – LINE OF CREDIT

In 2007, the School entered into line of credit with National City with a credit limit of $100,000 at an interest rate of 8.75 percent. As of June 30, 2007, $100,000 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 statues. With the School ceasing operations, the line of credit will not be repaid.

NOTE 12 – CAPITAL LEASES PAYABLE

Capital assets consisting of vehicles have been capitalized on the statement of net assets in the amount of $53,419. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded on the statement of net assets. Principal payments during the period ended January 31, 2009 totaled $2,849. The remaining balance will be repaid through the sale of any assets that the School maintained at January 31, 2009.

NOTE 13 – 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 for the period ending January 31, 2009.

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. This variance will have no effect on the financial standing of the School.

C. Litigation

On January 18, 2008, the State of Ohio Attorney General's office filed a lawsuit with Hamilton County Common Pleas court to declare that the School is a failed charitable trust. Presently the case is still pending and any financial ramifications to the School are not known at the time of this report.

In November 2005, the School's sponsor at that time, Lucas County ESC, placed the School on probation for failure to meet general accepted standards of fiscal management. Lucas County ESC also claimed the School violated state and/or federal laws that apply to community school established in Ohio Revised Code Chapter 3314 while failing to administer state mandated tests to grades 7 and 8.

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
c/o Buckeye Community Hope Foundation
3021 East Dublin-Granville Road
Columbus, Ohio 43231

To the Board of Directors:

We were engaged to audit the basic financial statements of Harmony Community School, Hamilton County, Ohio (the School), as of and for the period ended January 31, 2009, which comprise the School's basic financial statements. We have issued our report thereon dated April 21, 2010, where we noted the School has not fully paid the Auditor of State for services provided more than one year prior to our opinion date. AICPA Code of Professional Conduct, ET Section 191 considers this circumstance to impair and auditor's independence. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity because Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. Ohio Revised Code § 117.13 also includes provisions to collect unpaid audit fees including negotiating a schedule of payment of the amount due, seeking payment through the office of budget and management or through the county auditor of the county in which the local public office is located. We also noted that the School was placed on probation by its sponsor, Buckeye Community Hope Foundation in May 2006, and ceased operations on December 31, 2008. Furthermore, we noted for the period ending January 31, 2009, the School did not make material prior or current year audit adjustments to the financial statements, did not provide sufficient audit evidence to satisfy completeness of pending and threatened litigation, claims, and assessments as well as accounts payables, nor did the School include disclosures required by GASB Cod. 2300.106 and 2300.107.

Internal Control Over Financial Reporting

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

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

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

We consider findings 2009-004 through 2009-006 and 2009-011 through 2009-012 described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. Of the significant deficiencies described above, we believe findings 2009-005, 2009-006, and 2009-012 are also material weaknesses.

We also noted certain internal control matters that we reported to the School's management in a separate letter dated April 21, 2010.

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 engagement and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2009-001 through 2009-004 and 2009-007 through 2009-013.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the School's management in a separate letter dated April 21, 2010.

We intend this report solely for the information and use of management, Board of Directors, the Community School's sponsor, and federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 21, 2010

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JANUARY 31, 2009

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

FINDING NUMBER 2009-001

Finding for Recovery – Student Funding

Ohio Revised Code, Section 3314.06(A), states "that except as otherwise provided in this section, admission to the school shall be open to any individual age five to twenty-two entitled to attend school pursuant to section 3313.64 or 3313.65 of the Revised Code in a school district in the state."

Ohio Revised Code, Section 3313.64(B)(1), states "a child shall be admitted to the schools of the school district in which the child's parent resides."

Ohio Rev. Code, Section 3313.64(B)(2), provides that a child who does not reside in the district where the child's parent resides shall be admitted to the schools of the district in which the child resides if any of the following applies:

a) The child is in the legal or permanent custody of a government agency or a person other than the child's natural or adoptive parent.

b) The child resides in a home.

c) The child requires special education.

<u>Residency – Students Under the Age of 18</u>

Pursuant to **Ohio Revised Code, Section 3313.64(A)(4),** a home is defined, in pertinent part, as "a home, institution, foster Home, group home, or other residential facility in this state that receives and care for children."

During the 2008-2009 school year, we identified one student under the age of 18 at the beginning of the school year who did not reside within the school district corresponding to the address listed in the enrollment application as belonging to their parents. Instead, this student resided apart from the parents, in an apartment complex, or in a house with other students. Additionally, per the student's enrollment applications, the student did not reside with a legal guardian and did not meet any of the other requirements found in Ohio Revised Code Section 3313.64(B). As such, the School was not entitled to the funding requested and received from the Ohio Department of Education for this student in the amount of $2,949.

In accordance with the forgoing facts and pursuant to **Ohio Revised Code, Section 117.28**, a finding for recovery for public money illegally expended is hereby issued against Harmony Community School in the amount of $2,949, and in favor of the Ohio Department of Education (ODE) on behalf of the students' resident school districts.

Of the one student indicated above the School improperly received base foundation funding totaling $2,949. Due to the complex nature of calculating the special education foundation payment amount, we will refer the calculation of the special education overpayment amount to ODE for calculation.

FINDING NUMBER 2009-001
(Continued)

Residency – Students Over the Age of 18

Ohio Revised Code, Section 3314.06(A), states "that except as otherwise provided in this section, admission to the school shall be open to any individual age five to twenty-two entitled to attend school pursuant to section 3313.64 or 3313.65 of the Revised Code in a school district in the state."

Ohio Revised Code, Section 3313.64(F), provides, in part, that in the case of any individual entitled to attend school under this division, no tuition shall be charged by the school district of attendance and no other school district shall be required to pay tuition for the individual's attendance. Notwithstanding division (B), (C), or (E) of this section:

(1) All persons at least eighteen but under twenty-two years of age who live apart from their parents, support themselves by their own labor, and have not successfully completed the high school curriculum or the individualized education program developed for the person by the high school pursuant to section 3323.08 of the Revised Code, are entitled to attend school in the district in which they reside.

During the 2008-2009 school year, we identified 16 students over the age of 18 at the beginning of the school year who did not reside within the school district corresponding to the address listed in the enrollment application as belonging to their parents. Instead these students resided apart from their parents in an apartment complex, or in a house with other students. Additionally, per the students' enrollment applications, the students did not reside with a legal guardian. The School provided no documentation that the students were supporting themselves by their own labor. As such, the School was not entitled to the funding requested and received from the Ohio Department of Education for these students in the amount of $40,538.

In accordance with the forgoing facts and pursuant to **Ohio Revised Code, Section 117.28**, a finding for recovery for public money illegally expended is hereby issued against Harmony Community School in the amount of $40,538, and in favor of the Ohio Department of Education (ODE) on behalf of the students' resident school districts.

During the 2009 school year the School had students enrolled over eighteen years of age from other resident districts and claimed to be self supporting. The School has not established guidelines to constitute when a student over the age of eighteen is self supporting. We recommend the School establish guidelines to define when a student over the age of eighteen is self supporting outlining a range of income earned by a student and the timeframe of the earnings. Also, the Student should verify the earnings information with wage statements from the student.

Of the 16 students indicated above the School improperly received base foundation funding totaling $40,538. Due to the complex nature of calculating the special education foundation payment amount, we will refer the calculation of the special education overpayment amount to ODE for calculation.

FINDING NUMBER 2009-001
(Continued)

Lack of Support for School Attendance

Ohio Revised Code, Section 3314.03(11)(a), states that community schools will provide learning opportunities for a minimum of twenty-five students for a minimum of nine hundred twenty hours per school year. We could not determine if the students selected in our sample listed as being in the Compass program per the Student Roster received 920 hours of educational opportunities. Even though numerous requests were made during fieldwork, the School was unable to provide documentation supporting the existence of a 920 hour curriculum program for the 2008-2009 school year. We looked at each specific student and decided if Harmony Community School should have received all, some or none of the funding for each specific student from the Ohio Department of Education. We calculated each student's total available service hours by identifying the number of school days during the year the student could attend taking into consideration their enrollment and withdrawal dates and multiplying the number of days identified by the number of educational hours provided each day. Total eligible hours were then compared to the hours recorded as paid by the Ohio Department of Education to the School.

During the 2008-2009 school year, we identified 23 students who did not have evidence of attending the School. The School uses the Data Analysis for Student Learning (DASL) system to keep record of the students. The School did not provide evidence of the students attending the minimum of 920 hours. We also could not locate transcripts, grades, schedules or attendance records for these 23 students in the DASL system. The total overfunding for these 23 students was $22,554.

In accordance with the forgoing facts and pursuant to **Ohio Revised Code Section 117.28**, a finding for recovery for public money illegally expended is hereby issued against Harmony Community School in the amount of $22,554 and in favor of the Ohio Department of Education (ODE) on behalf of the students' resident school districts.

Of the 23 students indicated above the School improperly received base foundation funding totaling $22,554. Due to the complex nature of calculating the special education foundation payment amount, we will refer the calculation of the special education overpayment amount to ODE for calculation.

These matters will be referred to the Ohio Department of Education.

FINDING NUMBER 2009-002

Finding for Recovery – Overpayment to Tracy Hodges

Tracy Hodges was paid for 120 hours for the pay period ending September 23, 2008. However, a review of her Employee Detail Report showed she only worked 14.65 hours. There was an additional day in which there was an "In" time but no "Out" time and another day in which there was an "Out" time but no "In" time. We determined she worked an average of 7.33 hours per day. Therefore, we gave her credit for 14.66 additional hours. The total hours that she should have been paid equaled 29.31 hours for the pay period ending September 23, 2008. She was overpaid by 90.69 hours or approximately $1,106 ($12.20 pay rate). No one signed the timecard indicating review and approval. She was paid through direct deposit.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Tracy Hodges, in the amount of $1,106, and in favor of the Harmony Community School's General Fund.

FINDING NUMBER 2009-003

Finding for Recovery – Overpayment to Quentin Jackson

Quentin Jackson was paid for 27 hours for the pay period ending September 23, 2008. However, a review of his time sheet showed he only worked 18 hours. He was overpaid by nine hours or $81 ($9 pay rate). Additionally, Quentin Jackson was paid for 28 hours for the pay period ending November 23, 2008. However, a review of his time sheet showed he only worked 24 hours. He was overpaid by four hours or $36 ($9 pay rate). Accordingly. Quentin Jackson was overpaid a total of $117. No one signed the timecard indicating review and approval. He was paid through direct deposit.

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Quentin Jackson, in the amount of $117, and in favor of the Harmony Community School's General Fund.

FINDING NUMBER 2009-004

Noncompliance Citation/Significant Deficiency

Ohio Revised Code, Section 3314.08(L)(3), states that the department shall determine each community school student's percentage of full-time equivalency based on the percentage of learning opportunities offered by the community school to that student, reported either as number of hours or number of days, is of the total learning opportunities offered by the community school to a student who attends for the school's entire school year.

Per the Community School Average Daily Membership (CSADM) database, the School had 128.6 full time equivalents for the 2008-2009 school year. The School closed effective December 31, 2008. Per the January 2009 payment report from the Ohio Department of Education, there were 222.45 full time equivalents. It appears that the School received an overpayment of 93.85 full time equivalents. The Final Error Report and the Final Payment Report for the 2008-2009 school year was not provided by the School.

Failure to submit accurate data to the Ohio Department of Education could result in overfunding and potential findings for recovery. We recommend the School take due care to submit accurate information to the Ohio Department of Education.

FINDING NUMBER 2009-005

Material Weakness

When designing the public office's system of internal control and the specific control activities, management should consider ensuring that accounting records are properly designed, verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records, and performing analytical procedures to determine the reasonableness of financial data.

The School lacks management oversight over their GAAP conversion process and proper footnote disclosures. This lack of oversight is illustrated by the following conditions:

- The School's financial statements for fiscal year 2009 do not properly reflect beginning and ending net assets. This is due to the School not making audit adjustments in fiscal year 2008 and fiscal year 2009. Beginning net assets were overstated by ($3,410,420).

- The actual School closing date was December 31, 2008, not January 31, 2009. The financial statements should have been prepared as of December 31, 2008 and the financial activity after the closing date should have been disclosed in a footnote.

FINDING NUMBER 2009-005
(Continued)

- The amounts for 2008 and the period from July 2008 through January 2009 in the Management's Discussion and Analysis (MD&A) were inaccurate since the School did not make audit adjustments for 2008 or 2009.

- The address for the School noted in the Contacting the School's Financial Management section of the MD&A was incorrect. Since the School ceased operations as of December 31 ,2008 the correct contact information would be that of the School's sponsor: Buckeye Community Hope Foundation, 3021 East Dublin-Granville Road, Columbus, Ohio 43231.

- The School did not report any Accounts Payable on the Statement of Net Assets. Since the School could not meet several financial obligations and ceased operations, the School most likely had outstanding liabilities. The School did not provide enough information to determine how much Accounts Payable should have been disclosed.

- The School failed to report their liability to the Ohio Department of Job and Family Services of $297,015 on their financial statements.

- Capital asset audit adjustments for 2009 and inaccurate beginning balances as noted in the Management Letter were not corrected in the accompanying financial statements. This also affects the capital assets disclosure in Note 5 to the Basic Financial Statements and this disclosure is inaccurate. For these errors the amount that should be reflected in the financial statements should be $2,442,666 instead of $2,365,230, for a difference of $77,436.

- The School did not reflect the $2,620,995 overpayment that they received from the Ohio Department of Education for school foundation payments in the financial statements and the Notes to the Basic Financial Statements. This amount was reported as a Finding for Recovery in the financial audit performed for fiscal year 2005. The Ohio Department of Education started collecting the overpayment and the School ceased operations.

- Capital leases in the amount of $21,258 were not recorded on the School's financial statements as being payable.

- In addition to those noted above, the adjustments noted in Finding 2009-006 for the posting of transactions were not reflected in the accompanying financial statements. Recap of the current year financial statements (excluding prior period adjustments effects noted in the first bullet point above) are as follows:

Intergovernmental Payable	$(297,015)
Capital Assets	77,436
Foundation overpayment	(2,620,995)
Capital Leases Payable	(21,258)
School Foundation	224,040
Special Foundation	(189,996)
Parity Aid	(11,485)
Federal and State Grants	(4,483)
Fringe Benefits	(10,000)
Purchased Services	4,306
Other Expenses	(407)
DPIA Revenue	(11,975)

FINDING NUMBER 2009-005
(Continued)

- The Statement of Cash Flows is also inaccurate due to the above adjustments not being posted and the 2007 and 2008 audit adjustments not being considered during the fiscal year 2009 GAAP conversion.

- The capitalization threshold and the furniture, fixtures and equipment useful life noted in Note 2F of the Basic Financial Statements do not meet the School's capital asset policy. The capitalization threshold should be two hundred dollars instead of five hundred dollars. The furniture, fixtures and equipment useful life should be five years instead of three years. The capital asset adjustments mentioned above and in the Management Letter incorporate these differences.

- In Note 2G to the Basic Financial Statements regarding Intergovernmental Revenues the amount awarded for the first half of fiscal year 2009 should be $418,066 instead of $1,361,265.

- Note 7 to the Basic Financial Statements regarding defined benefit pension plans and Note 8 to the Basic Financial Statements regarding postemployment benefits do not disclose information for fiscal year 2009. Also, Note 8 does not state what percentage was contributed for health care post employment benefits, instead the Note states "xx percent".

- Note 10 in the Notes to the Basic Financial Statements regarding Long-Term Obligations is inaccurate. The footnote does not reflect audit adjustments from 2007, 2008, and 2009. The School did not include disclosures for the Park National Bank Mortgage, Jewish Federation mortgage, and the Ohio School Facilities Commission Loan Guarantee. Also, the School did not include disclosure about them defaulting and being unable to make payments on the above debt.

- The School did not properly disclose their capital leases.

- Governmental Accounting and Financial Reporting Standards codification (GASB Cod.) section 2300.106 states, the notes to the financial statements are essential to the fair presentation of the financial statements. GASB Cod. 2300.107 also states the notes to the financial statements in 2300.106 are not all-inclusive, and additional disclosures should be made if applicable.

  The notes to the financial statements are intended to communicate information that is necessary and that cannot be included in the financial statements themselves. The notes provide necessary disclosure of material items, the omission of which would cause the financial statements to be misleading. The notes are an integral part of the financial statements and are intended to be read with the financial statements. In addition to the inadequate disclosures noted above, the footnotes did not include the following necessary disclosures:

  - Significant violations of finance-related legal or contractual provisions and actions taken to address such violations (GASB Cod. 2300.106 (i) & 1200)

  - Significant effects of subsequent events (GASB Cod. 2300.106 (f) & 2250.106-.112)

  - Related-party transactions (GASB Cod. 2300.107 (f) & 2250.102)

  - Capital lease future minimum payments (GASB Cod. 2300.107 (h) & L20.124)

  - Conditions and events giving rise to substantial doubt about the government's ability to continue as a going concern (GASB Cod. 2300.107 (ll))

  - Purchased services (GASB Cod. 2300.107)

FINDING NUMBER 2009-005
(Continued)

The School did not make the adjustments noted above to the financial statements, including the Notes to the financial statements, or their accounting records.

Lack of posting audit adjustments, correcting footnote disclosures, and properly disclosing required items makes these financial statements and the Notes to the Basic Financial Statements useless to readers. The School should have corrected the above items so that citizens and creditors could utilize these financial statements to gain knowledge of the School's financial activity.

FINDING NUMBER 2009-006

Material Weakness

When designing the public office's system of internal control and the specific control activities, management should consider ensuring that accounting records are properly designed, verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records, and performing analytical procedures to determine the reasonableness of financial data.

Furthermore, sound internal controls require a school to establish policies over the collection, recording, safeguarding, and deposit of all receipts. Also, a duplicate receipt book should be maintained for all cash receipts, including but not limited to, state and local funding, student fees, field trip fees, fundraiser monies and other miscellaneous receipts. The duplicate receipts should be reconciled to all validated bank deposits.

The School lacks management oversight in the posting of revenue and debt transactions. This lack of oversight is illustrated by the following conditions:

- School Foundation was overstated by $224,040.
- Special Education was understated by $189,996.
- Parity Aid was understated by $11,485.
- Federal and State Grants were understated by $4,483.
- Fringe Benefits expenses were overstated by $10,000.
- Professional Service expenses were understated by $4,306.
- Other expenses were overstated by $407.
- DPIA revenue was understated by $11,975.
- Mortgage Principal Payments were misstated by $18,346. The principal line of credit was misstated by $881. Loan principal retirement payments were misstated by $13,833.
- Lease Principal Payments were misstated by $6,050.
- Mortgage Payable and Capital Leases Payable were not recognized on the financial statements. Activity for each were posted to "due in more than one year".

To improve record keeping and accountability of receipts we recommend that all state and federal revenue receipts be posted properly. Monitoring controls should be put into place by the School to help assure that debt activity is properly posted.

FINDING NUMBER 2009-006
(Continued)

The School did not make the adjustments noted above to the financial statements, Notes to the financial statements, or their accounting records.

FINDING NUMBER 2009-007

Noncompliance Citation

Exhibit 2 (Financial Controls) of the School's contract with their sponsor requires that an expense request form be approved by the School's director prior to a purchase being made. No expense request forms were provided for the 30 transactions tested. Therefore, none of the expenditures tested were approved by the director prior to the purchase.

Failure to properly approve purchases can result in overspending funds and negative cash balances. The School should follow the requirements set forth by their sponsor and consistently obtain approval for disbursements prior to the expenditure being made.

FINDING NUMBER 2009-008

Noncompliance Citation

Ohio Revised Code, Section 149.351, provides that no public record shall be removed or disposed of, in whole or part, except as provided by law or under the rules adopted by the records commissions provided for under Ohio Revised Code, Section 149.28 to 149.42.

- Harmony Community School did not provide invoices for the following payments:

Date	*Check #*	*Vendor*	*Amount*
07/14/2008	17623	J.R. Posey & Associates	$760.00
10/02/2008	17882	Cincinnati Enquirer	428.92

  We were able to obtain evidence through other auditing procedures to verify these expenditures were for proper public purposes.

- We could not trace check #17882 (Cincinnati Enquirer) to a canceled check. It did not appear on the December 31, 2008 outstanding check list.

- In relation to student data, the School did not provide:

  - Grade cards, schedules, attendance records, transcripts, and student files for each student.

  - Documentation that support the hours of community service, portfolio, and work hours.

  - Employment information all students required to be self-supported.

Failure to maintain supporting documentation can result in incorrect posting of financial activity and questions regarding funding received. We recommend that the School keep all records.

FINDING NUMBER 2009-009

Noncompliance Citation

Ohio Revised Code, Section 3314.03(A)(10), provides that all community school classroom teachers are to be licensed in accordance with Ohio Revised Code Sections 3319.22 to 3319.31, except that a community school may engage noncertificated persons to teach up to twelve hours per week pursuant to Ohio Revised Code Section 3319.301. A permit must be issued by the Ohio Dept. of Education to these "noncertificated" persons in order to teach. Also, 34 C.F.R. Section 200.56, requires Title I teachers to be highly qualified as defined in this section.

For three of ten teachers and teacher's aides tested, or 30%, no license or permit could be provided for audit.

This practice could result in students being taught by unqualified/unlicensed teachers. We recommend that the School comply with all federal and state teaching guidelines by hiring licensed teachers, regularly reviewing the status of their teachers, and maintaining supporting documentation in their personnel files.

This matter will be referred to the Ohio Department of Education.

FINDING NUMBER 2009-010

Noncompliance Citation

Ohio Revised Code, Section 117.38, provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38. Also, entities must publish notice in a local newspaper stating the financial report is available for public inspection at the office of the chief fiscal officer.

The School did not file their fiscal year 2009 annual report with the Auditor of State or publish notice in a local newspaper stating the report was available for inspection. Failure to file an annual report with the Auditor of State can result in penalties to the School. Failure to publish notice in the newspaper stating the annual report is available for inspection can result in the public being unaware of the financial operations of the School. We recommend the School file their annual report and publish notice in the newspaper that their annual report is available for inspection.

FINDING NUMBER 2009-011

Noncompliance Citation/Significant Deficiency

Closeout – Disposition of Assets

Ohio Rev. Code, Section 3314.074, establishes the order of the distribution of assets when a community school permanently closes and ceases operations. In addition, **Ohio Rev. Code Section 3314.015(E)** provides that the Ohio Department of Education (ODE) shall adopt procedures for use by a community school governing authority and sponsor when the school closes.

Pursuant to the Ohio Department of Education's "*Community School Closing Procedures Guidance*" the following actions are required when a community school closes:

FINDING NUMBER 2009-011
(Continued)

Actions for the Governing Authority

Step 8 – Account for all school property throughout the closing process:

a. Utilize fixed assets list and inventory to account for all items;

   i. Establish fair market value via fixed asset policy;

   ii. Establish check off list of purchasers and price of each item (and source of funds);

   iii. Establish payment process; and

   iv. Establish disposition plan for any remaining items.

Step 9 - Requires after the school has closed, to make disposition of school property (they shall):

a. Notify all other community schools and traditional public schools of the date of the sale;

b. Price items at fair market value;

c. Federally purchased items (CCIP and grant purchased) need to be separately submitted to ODE, Office of Federal Programs and a request made regarding their dissemination(request to sell items to other schools towards debt satisfaction); and

d. E-Tech (formerly known as Ohio SchoolNet) hardware and software must be returned to ETech to be redistributed per statutory requirements.

Contrary to the close out procedures, a fair market value was not assessed for school property. Also, the inventory of items to be sold did not appear to be complete. For example, per the capital asset listing, there were at least 125 computers. The inventory for close out indicated there were 75 monitors and five hard drives. The inventory omits four servers originally valued at $15,000, two digital camera originally valued at $6,000, two heaters originally valued at $500, a scissors lift originally valued at $3,517, a commercial fan originally valued at $8,845, and a floor scrubber originally valued at $4,200.

The School did not separate out federally purchased items and submit this to ODE for permission to sell items.

Receipt #316482 was issued to Janell Holston for $3,505 for the purchase of miscellaneous kitchen items during the closing of the School. This receipt was then voided. Receipt #316483 was issued to Janell Holston for $3,005. Both receipts were signed and the white copy was missing from both receipts. The School did not provide any explanation for this voiding and reissuance of receipts.

The School should have followed the required procedures from ODE when disposing of capital assets after the School closed.

FINDING NUMBER 2009-012

Noncompliance Citation/Material Weakness

2 C.F.R. Part 225 (formerly known as OMB Circular A-87), Appendix A, Section A(2)(a)(2) states that governmental units assume responsibility for administrating Federal funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the Federal award.

2 C.F.R. Part 225 (formerly known as OMB Circular A-87), Appendix A, Section C(1)(j) also provides that for a cost to be allowable, the expenditure must be adequately documented.

Furthermore, **OMB Circular No. A-133, Section .105** defines questioned costs, in part, as a cost that is questioned by the auditor because of an audit finding where the costs, at the time of the audit, are not supported by adequate documentation.

OMB Circular No. A-133, Section .300 states that the auditee shall:

a) identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.

b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with OMB Circular A-133, Section .310.

OMB Circular No. A-133 Section ___.300 states the auditee shall:

a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.

b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §___.310.

OMB Circular No. A-133 Section __.310 (b) states that the auditee shall prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements.

FINDING NUMBER 2009-012
(Continued)

Due to the following deficiencies we could not determine if funds were reported accurately on the Schedule of Federal Awards Revenues and Expenditures or expended in accordance with each of the Federal program requirements (the Schedule of Federal Awards Receipts and Expenditures was not adjusted by the School for any of the items noted below):

- The School did not segregate the federal funds on their financial records thus federal funds were commingled.
- The School did not report National School Breakfast revenues and expenditures of $10,328 and National School Lunch revenues and expenditures of $17,374. We recommend the School include all federal receipts and expenditures on their Federal Schedule.
- The School reported 21st Century grant expenditures of $71,707. The School only had support for $67,115 for this program. The remaining $4,592 are questioned costs. We recommend the School provide detailed reports for all expenditures noted on the Final Expenditure Report. The reports should include a running balance of funds available.
- The School receipts were not properly reported on the federal schedule for Title I, Title IIA, Title IID, Title IVA, Title V, IDEA B, and 21st Century. We recommend the School accurately report all federal receipts and expenditures on their federal schedule.
- Final Expenditure Reports (FER), which are required by the Ohio Department of Education, were not supported with adequate documentation.
- Harmony was unable to provide source documentation for grant expenditures and for the Federal awards during the year ended January 31, 2009 as follows:

Title I	$98,246
Special Education Grants to States (IDEA B)	54,412
Safe and Drug Free Schools	51
Title VI-Innovative Education Program Strategies	336
Title II-D-Technology Literacy Challenge Fund	251
Improving Teacher Quality	1,501

We were unable to determine if the School complied with maintenance and level of effort requirements, period of availability requirements, or procurement and suspension and debarment requirements due to the School not providing support for the amount reported on their Federal schedule for Title I funds. See also Finding 2009-013.

We were unable to determine if the School limited cash requests to the amounts actually needed or if the School reported the total award expenditure amounts on a cash basis because the School did not maintain a running balance of the funds available. The School did not segregate the federal funds on their financial records, thus the federal funds were commingled.

We recommend the School:

1. Segregate their federal funds on their financial records by utilizing the Uniform School Accounting System;
2. Ensure proper reporting of federal receipts and expenditure;
3. Maintain and provide adequate documentation in support of all federal expenditures and comply with all requirements of the grant agreements; and

FINDING NUMBER 2009-012
(Continued)

4. Establish and maintain effective controls over their Federal programs.

Failure to identify federal funds, provide adequate documentation, establish controls, and comply with grant requirements, resulted in questioned costs and potential loss of federal financial assistance.

FINDING NUMBER 2009-013

Noncompliance Citation – Procurement and Suspension and Debarment; Maintenance and Level of Effort

Procurement and Suspension and Debarment

Schools that receive federal funds must comply with the EDGAR regulations found at 34 CFR Section 80.36; Procurement and 34 CFR Section 74.40; Purpose of Procurement Standards. Since EDGAR is a general administrative rule for all of USDOE's federal programs, adherence with these rules apply to all schools receiving federal dollars and all grants administered by them. A similar regulation is found for all federal agencies that grant funds to state and local entities through the adoption of OMB Circular A-102. This means a school must ensure a procurement process is developed and implemented for purchased goods and services. The procurement process must be conducted in a manner providing full and open competition consistent with the standards of 34 CFR Section 80.36.

34 CFR Section 80.35 states that grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, "Debarment and Suspension."

Maintenance and Level of effort

20 USC Section 7901 states an LEA may not use Title I, Part A funds for activities that it would have conducted in the absence of these federal funds (Title I, Part A). To meet MOE, combined fiscal effort (per student or the aggregate expenditures of the LEA and the State) cannot be less than 90% of the combined fiscal effort for the second preceding fiscal year.

20 USC Section 6321(b) states a local educational agency shall use Federal funds received under this part only to supplement the funds that would, in the absence of such Federal funds, be made available from non-Federal sources for the education of pupils participating in programs assisted under this part, and not to supplant such funds.

As noted in Finding 2009-012, due to the lack of supportive documentation we were unable to determine the School's compliance with the requirements noted above.

The School should maintain adequate documentation to ensure compliance. In addition, the School should develop and implement effective controls over the grant compliance requirements.

We did not receive a response from the School's Officials to the findings noted above.

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HARMONY COMMUNITY SCHOOL
HAMILTON COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .315 (b)
FOR THE YEAR ENDED JANUARY 31, 2009

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2008-001	Finding for recovery related to student residency.	No*	Not corrected – not repaid as of April 21, 2010.
2008-002	Finding for recovery related to lack of support for school attendance.	No*	Not corrected – not repaid as of April 21, 2010.
2008-003	Finding for recovery related to 105 consecutive hours missed.	No*	Not corrected – not repaid as of April 21, 2010.
2008-004	Finding for recovery related to a comparison of services rendered to services billed.	No*	Not corrected – not repaid as of April 21, 2010.
2008-005	Finding for recovery related to the Adult Continuing Education Program.	No*	Not corrected – not repaid as of April 21, 2010.
2008-006	Finding for recovery related to the Transition Program.	No*	Not corrected – not repaid as of April 21, 2010.
2008-007	Finding for recovery against Tracy Hodges.	No*	Not corrected – not repaid as of April 21, 2010.
2008-008	Lack of management oversight over GAAP conversion process and proper footnote disclosures.	No*	Not corrected. Reissued as Finding 2009-005.
2008-009	Lack of management oversight in posting of transactions.	No*	Not corrected. Reissued as Finding 2009-006.
2008-010	Failure to complete and approve expense request forms.	No*	Not corrected. Reissued as Finding 2009-007.

* The periods ending June 30, 2008 and January 31, 2009 were audited concurrently.

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2008-011	Ohio Revised Code, Section 149.351, failure to maintain records.	No*	Not corrected. Reissued as Finding 2009-008.
2008-012	Ohio Revised Code, Section 3314.03(A)(10), failure to employ licensed teachers.	No*	Not corrected. Reissued as Finding 2009-009.
2008-013	Ohio Revised Code, Section 117.38, failure to file annual report.	No*	Not corrected. Reissued as Finding 2009-010.
2008-014	Failure to submit accurate School calendar to Ohio Department of Education.	No*	Not corrected. Reissued as Finding 2009-004.
2008-015 2008-016	-2 CFR Part 225, Appendix A, Section A.2; -A-133, Section .105; -A-133, Section .300: failure to segregate federal funds, provide support for expenditures, implement controls over federal grants.	No*	Not corrected. Reissued as Finding 2009-012.
2008-017	7 CFR 245.6, failure to maintain free and reduced price lunch income verification.	N/A	The School was not subject to A-133 for FY09.
2008-018	-Title I, Section 1115; -2 CFR Part 225, Appendix A, Section C(1)(j); -2 CFR Part 225, Appendix B, section 8(a); -2 CFR Part 225, Appendix B, Section 26(c): failure to maintain support for amounts reported as salary and benefits for Title I grant.	N/A	The School was not subject to A-133 for FY09.
2008-019	34 CFR Section 80.30(c)(1), failure to limit expenditures to budgeted amounts.	N/A	The School was not subject to A-133 for FY09.

* The periods ending June 30, 2008 and January 31, 2009 were audited concurrently.

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2008-020	2 CFR Part 225, questioned costs for 21st Century Grant.	N/A	The School was not subject to A-133 for FY09.
2008-021	2 CFR Section 215.34(f), failure to maintain list of capital asset additions for 21st Century grant.	N/A	The School was not subject to A-133 for FY09.
2008-022	Failure to comply with Procurement and Suspension and Debarment; Maintenance and Level of Effort requirements.	No*	Not corrected. Reissued as Finding 2009-013.

* The periods ending June 30, 2008 and January 31, 2009 were audited concurrently.

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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Harmony Community School
Hamilton County
c/o Buckeye Community Hope Foundation
3021 East Dublin-Granville Road
Columbus, Ohio 43231

To the Board of Directors:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether Harmony Community School (the School) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board did not adopt an anti-harassment policy.

2. The following requirements from Ohio Rev. Code Section 3313.666(B) were not adopted:

   (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;

   (2) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666;

   (3) A procedure for reporting prohibited incidents;

   (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;

   (5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;

   (6) A procedure for documenting any prohibited incident that is reported;

(7) A procedure for responding to and investigating any reported incident;

(8) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;

(9) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;

(10) A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and School's sponsor, and is not intended to be and should not be used by anyone other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 21, 2010

Mary Taylor, CPA
Auditor of State

HARMONY COMMUNITY SCHOOL

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
MAY 25, 2010

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