



Mary Taylor, CPA
Auditor of State

HARMONY COMMUNITY SCHOOL
HAMILTON COUNTY

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Mary Taylor, CPA

Auditor of State

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 year ended June 30, 2008, 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 Auditor of State has billed Harmony Community School for audit services provided for the school years June 30, 2005 through June 30, 2007.

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 School did not make material adjustments to the financial statements, including the Notes to the financial statement, or their accounting records. The adjustments necessary are as follows:

	Amount reported on the financial statements	Amount should have been reported in financial statements	Difference
Capital Assets, Net Depreciation	\$2,433,331	\$2,513,752	\$80,421
Accounts Payable	456,936	117,595	(339,341)
Intergovernmental Payable	52,054	279,505	227,451
Line of Credit Payable	99,898	102,773	2,875
Foundation Overpayment	0	2,620,995	2,620,995
Capital Leases Payable	3,683	18,891	15,208
Mortgage Payable	94,433	122,032	27,599

	Amount reported on the financial statements	Amount should have been reported in financial statements	Difference
Due in More Than One Year	2,178,631	2,206,866	28,235
Invested in Capital Assets, Net of Related Debt	150,584	181,813	31,229
Unrestricted	(753,541)	(3,713,195)	(2,959,654)
School Foundation	2,294,647	2,713,604	418,957
DPIA	79,197	52,195	(27,002)
Special Education	584,737	567,701	(17,036)
Parity Aid	38,381	34,958	(3,423)
Other Operating Revenues	46,499	78,436	31,937
Fringe Benefits and Payroll Taxes	856,133	966,330	110,197
Purchased Services	897,573	833,820	(63,753)
Depreciation	116,285	126,866	10,581
Other Expenses	38,678	50,587	11,909
Federal and State Grants	1,028,160	819,239	(208,921)
Interest Expense	(195,668)	(188,825)	6,843
Net Assets, Beginning of Year	(481,995)	(3,410,420)	2,928,425

GASB Cod. 2300.106(h) requires financial statement disclosure of significant violations of "finance-related legal or contractual provisions". The School did not disclose material violations.

In our opinion, because of the matters discussed in paragraphs two through five 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 year ended June 30, 2008.

The accompanying unadjusted financial statements have been prepared assuming that the School will continue as a going concern. As discussed in Note 16 to the financial statements, the School has suffered recurring losses from operations and has a net asset deficiency that raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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 2007 amounts in the accompanying Management's Discussion and Analysis as disclosed in the fiscal year ended June 30, 2007 basic financial statements. However, we did not audit the information and express no opinion on it.

We conducted our engagement to opine on the financial statements that collectively comprise the School's basic financial statements. The federal awards receipts and expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The School did not separately account for federal revenues and expenditures, and did not provide adequate documentation to support revenues and expenditures. Therefore, the accompanying schedule of federal awards receipts and expenditures has not been subjected to the procedures applied in the engagement of the financial statements and accordingly we express no opinion on it.



Mary Taylor, CPA
Auditor of State

April 21, 2010

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HARMONY COMMUNITY SCHOOLS

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2008

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 fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial 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

- In total, net assets decreased \$128,403, which represents a 25.10 percent decrease from 2007. The School actually realized an increase in cash flow of \$75,156 compared to the decreases in 2006 and 2007 with the depreciation expense causing operations to be negative.
- Total assets decreased \$128,403, which represents a 5.00 percent decrease from 2007. This decrease was primarily due to depreciation on the School's capital assets.
- Long-term liabilities decreased \$98,116, which represents a 4.30 percent decrease from 2007. The School continues working towards reducing the outstanding debt obligations to build a sustainable financial condition for the future of the School.

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.

HARMONY COMMUNITY SCHOOLS

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2008

Table 1 provides a summary of the School's net assets for fiscal year 2008 and fiscal year 2007:

(Table 1)
Net Assets

	<u>2008</u>	<u>2007</u>
Assets		
Current Assets	\$4,989	\$25,540
Capital Assets, Net	2,433,331	2,541,183
Total Assets	<u>2,438,320</u>	<u>2,566,723</u>
Liabilities		
Current Liabilities	862,646	771,971
Long Term Liabilities	<u>2,178,631</u>	<u>2,276,747</u>
Total Liabilities	<u>3,041,277</u>	<u>3,048,718</u>
Net Assets		
Invested in Capital Assets	150,584	180,865
Unrestricted	<u>(753,541)</u>	<u>(662,860)</u>
Total Net Assets	<u>(\$602,957)</u>	<u>(\$481,995)</u>

Total assets decreased \$128,403 mainly due to annual depreciation of the School's building and about \$500,000 less revenue received from the State. Another significant change from 2007 in liabilities relates the recognition of a large unemployment payable as the School had to release several employees resulting from the decrease in revenue.

The School actually decreased long term liabilities by \$98,116 as the mortgage payable and capital lease balances were reduced. The School is very realistic about the need to reduce the debt load creating a solid financial operating environment in order to provide what is most important which is educating the children attending the School.

HARMONY COMMUNITY SCHOOLS

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2008

Table 2 shows the changes in net assets from fiscal year 2008 to fiscal year 2007, as well as a listing of revenues and expenses.

(Table 2)
Change in Net Assets

	<u>2008</u>	<u>2007</u>
Operating Revenues:		
State Foundation	\$2,294,647	\$3,335,802
DPIA	79,197	68,382
Special Education	584,737	495,264
Parity Aid	38,381	45,521
Other Operating Revenue	106,664	235,162
Non-Operating Revenues:		
Interest	4,960	0
Federal and State Grants	1,028,160	436,678
Total Revenues	<u>4,136,726</u>	<u>4,621,809</u>
Operating Expenses:		
Salaries and wages	1,812,500	2,374,093
Fringe Benefits and Payroll Taxes	856,133	252,824
Purchased Services	897,573	1,356,672
Materials and Supplies	340,851	312,275
Deprecation	116,295	165,727
Other	38,678	0
Non-Operating Expenses:		
Loss on Disposal of Capital Assets	0	58,266
Interest Expense	195,668	216,873
Total Expenses	<u>4,257,688</u>	<u>4,736,730</u>
Change in Net Assets	(120,962)	(114,921)
Beginning Net Assets	<u>(481,995)</u>	<u>(367,074)</u>
Ending Net Assets	<u><u>(\$602,957)</u></u>	<u><u>(\$481,995)</u></u>

While net assets decreased \$120,962 from 2007 to 2008, the change was impacted by the State provided the School with less revenue compared to 2007 from their various sources. This was the critical reason for the School's reduction in cash balance and ending net assets. The School actually reduced expenses by \$479,042 or 10.11 percent as they worked towards maintaining balanced operations.

HARMONY COMMUNITY SCHOOLS

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2008

Capital Assets

At the end of fiscal year 2008, the School had \$2,433,331 invested in building and building improvements, furniture, fixtures, and equipment, and vehicles which represented a decrease of \$107,852 from 2007. For more information on the School's capital asset refer to note 5 of the financial statements.

Debt Administration

The School retired \$87,197 of the mortgage payable during 2008. The mortgage revenue payable will retire in 2023 with semi-annual principal and interest payments. 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

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 that it receives. If you have questions about this report or need additional information contact the Office of the Treasurer at Harmony Community School, 1580 Summit Avenue, Cincinnati, Ohio 45237 or via telephone at (513) 921-5260.

**HARMONY COMMUNITY SCHOOL
HAMILTON COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2008**

Assets:	
Current assets:	
Accounts receivable	\$ 4,989
Total current assets	<u>4,989</u>
Noncurrent assets:	
Capital assets, net depreciation	2,433,331
Total noncurrent assets	<u>2,433,331</u>
Total Assets	<u><u>2,438,320</u></u>
 Liabilities:	
Current liabilities	
Payables:	
Accounts	456,936
Accrued wages and benefits	125,630
Intergovernmental	52,054
Interest	6,209
Loans	16,000
Line of Credit	99,898
Outstanding Checks over Bank Balances	7,803
Due within One Year:	
Capital Leases Payable	3,683
Mortgage Payable	94,433
Total current liabilities	<u>862,646</u>
Non-Current liabilities	
Due in More than One Year	<u>2,178,631</u>
Total Liabilities	<u><u>3,041,277</u></u>
 Net Assets:	
Invested in capital assets, net of related debt	150,584
Unrestricted	<u>(753,541)</u>
Total net assets	<u><u>\$ (602,957)</u></u>

See accompanying notes to the basic financial statements

**HARMONY COMMUNITY SCHOOL
HAMILTON COUNTY**

**STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS**

For the Year Ended June 30, 2008

Operating Revenues:	
State foundation	\$ 2,294,647
DPIA	79,197
Special Education	584,737
Parity Aid	38,381
Charges for services	60,145
Other operating revenues	<u>46,499</u>
Total operating revenues	<u>3,103,606</u>
Operating Expenses:	
Salaries and wages	1,812,500
Fringe benefits and Payroll Taxes	856,133
Purchased Services	897,573
Materials and supplies	340,851
Depreciation	116,285
Other expenses	<u>38,678</u>
Total operating expenses	<u>4,062,020</u>
Operating Loss	(958,414)
Nonoperating revenues (expenses):	
Federal and State grants	1,028,160
Interest Revenue	4,960
Interest Expense	<u>(195,668)</u>
Total nonoperating revenues (expenses)	<u>837,452</u>
Change in net assets	(120,962)
Net assets, beginning of year	(481,995)
Net assets, end of year	<u><u>\$ (602,957)</u></u>

See accompanying notes to the basic financial statements

**HARMONY COMMUNITY SCHOOL
HAMILTON COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2008**

Cash flows from operating activities:	
Cash received from State of Ohio - Foundation	\$ 2,294,647
Cash received from State of Ohio - DPIA	79,197
Cash received from State of Ohio - State	623,118
Cash received from other operating revenues	104,106
Cash payments for personal services	(2,504,077)
Cash payments for suppliers for goods and services	(1,229,472)
Cash payments for other expenses	<u>(38,678)</u>
Net cash used by operating activities	<u>(671,159)</u>
 Cash flows from noncapital financing activities:	
Repayment of Short Term Loan	(75,156)
Cash received from state and federal grants	<u>1,051,249</u>
Net cash used by capital and related financing activities	<u>976,093</u>
 Cash flows from capital and related financing activities:	
Acquisition of capital assets	(8,433)
Principal paid on capital leases	(9,367)
Principal paid on mortgage payable	(87,197)
Principal paid on line of credit	(9,592)
Total interest paid on outstanding obligations	<u>(195,305)</u>
Net cash used by capital and related financing activities	<u>(309,894)</u>
 Cash flows from investing activities:	
Investment income	<u>4,960</u>
Net change in cash and cash equivalents	-
Cash and Cash Equivalents at beginning of year	<u>-</u>
Cash and Cash Equivalents at end of year	<u><u>-</u></u>
 Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	(958,414)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	116,285
Change in assets and liabilities:	
Accounts receivable	(2,538)
Accounts payable	300,088
Accrued wages and benefits	(112,668)
Intergovernmental payable	<u>(13,912)</u>
Net cash used by operating activities	<u><u>\$ (671,159)</u></u>

See accompanying notes to the basic financial statements

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HARMONY COMMUNITY SCHOOLS

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

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.

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.

HARMONY COMMUNITY SCHOOLS

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

(Continued)

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.

HARMONY COMMUNITY SCHOOLS

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

(Continued)

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.

HARMONY COMMUNITY SCHOOLS

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008
(Continued)

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 2008 school year totaled \$4,025,122.

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 fiscal year end, the carrying amount of the School's deposits was (\$7,804), and the available bank balance was \$135,770. The \$100,000 of bank balance was insured by the Federal Depository Insurance Corporation while the remaining balance was uninsured and uncollateralized under the FDIC coverage.

Investments: the School had no investments at June 30, 2008, or during the fiscal year.

HARMONY COMMUNITY SCHOOLS

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

(Continued)

NOTE 4 – RECEIVABLES

The School had no intergovernmental receivables at June 30, 2008.

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008:

	Balances 6/30/07	Additions	Deletions	Balance 6/30/08
Capital Assets Being Depreciated				
Building and Improvements	\$3,000,000	\$0	\$0	\$3,000,000
Furniture, Fixtures, and Equipment	166,632	8,433	0	175,065
Vehicles	62,640	0	0	62,640
Total Capital Assets				
Being Depreciated	3,229,272	8,433	0	3,237,705
Less Accumulated Depreciation				
Buildings and Improvements	(500,000)	(100,000)	0	(600,000)
Furniture, Fixtures, and Equipment	(141,665)	(3,741)	0	(145,406)
Vehicles	(46,424)	(12,544)	0	(58,968)
Total Accumulated Depreciation	(688,089)	(116,285)	0	(804,374)
Total Capital Assets				
Being Depreciated, Net	<u>\$2,541,183</u>	<u>(\$107,852)</u>	<u>\$0</u>	<u>\$2,433,330</u>

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 2008, 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.

HARMONY COMMUNITY SCHOOLS

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

(Continued)

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.

HARMONY COMMUNITY SCHOOLS

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

(Continued)

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.

HARMONY COMMUNITY SCHOOLS

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008
(Continued)

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.

HARMONY COMMUNITY SCHOOLS

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008
(Continued)

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

A. Employees 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, 2008 were as follows:

<u>Long Term Obligations</u>	<u>Principal Outstanding 6/30/07</u>	<u>Additions</u>	<u>Deductions</u>	<u>Principal Outstanding 6/30/08</u>	<u>Amounts Due in One Year</u>
Mortgage-Park National	\$1,745,749	\$0	\$65,299	\$1,680,450	\$70,719
Mortgage-Jewish Federation	614,512	0	21,898	592,614	23,714
Loans-National City	109,490	0	9,592	99,898	99,898
Capital Leases Payable	13,050	0	9,367	3,683	3,683
Total	<u>\$2,482,801</u>	<u>\$0</u>	<u>\$337,370</u>	<u>\$2,376,645</u>	<u>\$198,014</u>

Principal and interest requirements to retire long-term mortgage obligations outstanding at June 30, 2008 are as follows:

<u>Years</u>	<u>Mortgage Obligations</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$94,433	172,484	272,788
2010	102,271	164,161	272,788
2011	109,885	146,026	255,911
2012	1,376,885	73,688	1,471,014
2013	136,937	73,688	210,625
2014-2018	208,518	142,787	351,305
2019-2022	244,134	42,835	286,969
Totals	<u>\$2,273,064</u>	<u>\$779,619</u>	<u>\$3,052,683</u>

HARMONY COMMUNITY SCHOOLS

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008
(Continued)

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 statutes.

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 in fiscal year 2008 totaled \$9,367. The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2008.

<u>Fiscal Year Ending June 30,</u>	<u>Liability</u>
2009	\$3,782
Less: Amount Representing Interest	<u>(99)</u>
Present Value of Net Minimum Lease Payments	<u><u>\$3,683</u></u>

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 at June 30, 2008.

HARMONY COMMUNITY SCHOOLS

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008
(Continued)

NOTE 13 – CONTINGENCIES (continued)

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

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

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.

NOTE 14 – PURCHASED SERVICES

Purchased Services during fiscal year 2008 were comprised of the following:

Professional Fees	\$574,674
Insurance	55,055
Utilities	191,281
Leasing	31,547
Transportation	7,066
Other	37,950
	<hr/>
Total	<u>\$897,573</u>

HARMONY COMMUNITY SCHOOLS

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

(Continued)

NOTE 15 – RELATED PARTIES

The spouse of the current Executive Director is employed as a social worker and is paid \$43,550 annually. The spouse of the former Executive Director is employed as the guidance counselor and is paid \$73,000 annually.

NOTE 16 – FISCAL DISTRESS

At June 30, 2008 the School had ending net assets of (\$602,957). The School's net assets were negative mainly due to the extent of outstanding debt (\$2,372,962) and accrued liabilities related to the payroll and benefits (\$177,684).

The School's administration is in the process of evaluating the processes and procedures used in the various expense areas for savings. The School is still receiving funds from the State of Ohio and is working to use those funds in a more efficient manner.

NOTE 17 – FINDING FOR RECOVERY

The Auditor of State determined that the School had discrepancies of total eligible hours compared to hours recorded as paid by the Ohio Department of Education for fiscal years 2005, 2006 and 2007 in several of the School's funded programs. Another finding was determined based on the lack of documentation to prove that a minimum of twenty-five students were providing with learning opportunities for a minimum of nine hundred twenty hours per school year. The Auditor of State issued another finding based on three students who attended the School that did not reside within the school district corresponding to the address in listed in the enrollment application as belonging to their parents. These students resided away from their parents or legal guardian and did not meet any of the other requirements found in Ohio Revised Code Section 3313.64(B).

The total amount of the above described findings is \$2,622,434. The School is working with the Ohio Department of Education to setup a payment plan to repay the findings over several years given the amount. The Auditor of State is reporting the findings; although, final determination rests with the Ohio Department of Education and the Attorney General's office.

NOTE 18 – SUBSEQUENT EVENTS

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.

The School received an extension on the land purchase contract until December 2006. The School was not able to close the contract and in January 2007 terminated the purchase contract agreement with Philada Home Fund in relation to the student housing facility. The related capital asset and mortgage payable will be removed from the School's financial statements in 2007.

HARMONY COMMUNITY SCHOOLS

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008
(Continued)

NOTE 18 – SUBSEQUENT EVENTS (continued)

The School entered into a line of credit with National City bank during fiscal year 2007. The School has drawn upon the equity line for the maximum \$100,000. The loan is being repaid monthly currently as interest only payments.

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 2008, the School District announced it would cease operations at December 31, 2008 as an agreement with the Ohio Department of Education on the repayment terms of the finding for recovery described above could not be executed to allow the School District to continue to operate.

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**HARMONY COMMUNITY SCHOOL
HAMILTON COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2008**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<i>Passed Through Ohio Department of Education:</i>				
Child Nutrition Cluster				
School Breakfast Program	05-PU	10.553	\$27,484	\$27,484
National School Lunch Program	LL-P4	10.555	<u>82,823</u>	<u>82,823</u>
Total Child Nutrition Cluster			<u>110,307</u>	<u>110,307</u>
Total U.S. Department of Agriculture			<u>110,307</u>	<u>110,307</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed Through Ohio Department of Education:</i>				
Special Education Cluster:				
Special Education Grants to States (Title VI-B)	6B-SF	84.027	<u>164,291</u>	<u>164,291</u>
Total Special Education Cluster			<u>164,291</u>	<u>164,291</u>
Grants to Local Educational Agencies (Title I)	C1-S1	84.010	257,115	257,115
Safe and Drug Free Schools	DR-S1	84.186	5,738	5,738
21st Century Grant	T1-S1	84.287	249,790	224,811
Title VI -- Innovative Education Program Strategies	C2-S1	84.298	997	997
Title II-D - Technology Literacy Challenge Fund Grants	TJ-S1	84.318	2,624	2,624
Improving Teacher Quality	TR-S1	84.367	<u>15,747</u>	<u>15,747</u>
Total U.S. Department of Education			<u>696,302</u>	<u>671,323</u>
Totals			<u><u>\$806,609</u></u>	<u><u>\$781,630</u></u>

The accompanying notes to this schedule are an integral part of this schedule.

**HARMONY COMMUNITY SCHOOL
HAMILTON COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) summarizes activity of the School's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B—CHILD NUTRITION CLUSTER

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.



Mary Taylor, CPA

Auditor of State

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 year ended June 30, 2008, 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 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. 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 we were unable to obtain sufficient audit evidence to satisfy us concerning the accounting for and reporting of pending and threatened litigation, claims, and assessments and the School did not make material adjustments to the financial statements, including the Notes to the financial statement, or their accounting records nor did they disclose material violations of finance-related legal or contractual provisions required GASB Cod. 2300.106(h).

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 2008-008, 2008-009, 2008-014, and 2008-015 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 2008-008, 2008-009 and 2008-015 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 2008-001 through 2008-007 and 2008-010 through 2008-013 and 2008-015.

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, CPA
Auditor of State

April 21, 2010



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

To the Board of Directors:

Compliance

We have audited the compliance of Harmony Community School, Hamilton County, Ohio (the School), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2008. The summary of auditor's results section of the accompanying schedule of findings and questioned costs identifies the School's major federal programs. The School's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School's compliance with those requirements.

As described in findings 2008-016, 2008-018 through 2008-022 in the accompanying schedule of findings and questioned costs, the School did not comply with requirements regarding Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Reporting, Cash Management, Maintenance and Level of Effort, Earmarking, Period of Availability, and Procurement and Suspension and Debarment that are applicable to its 21st Century and Title I Grants and Equipment and Real Property Management applicable to the 21st Century Grant. Compliance with these requirements is necessary, in our opinion for the School to comply with requirements applicable to these programs.

The results of our auditing procedures also disclosed an other instance of noncompliance with those requirements that OMB Circular A-133 requires us to report, which is described in the accompanying schedule of findings and questioned costs as item 2008-017.

In our opinion, because of the effect of the noncompliance described in the preceding paragraph, Harmony Community School did not comply, in all material respects, with the requirements referred to above applying to its 21st Century and Title I major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The School's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

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

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to administer a federal program such that there is more than a remote likelihood that the School's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as findings 2008-016 through 2008-022 to be significant deficiencies.

A material weakness is significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that the School's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements. We consider findings 2008-016, 2008-018 through 2008-020, and 2008-022 described in the accompanying schedule of findings and questioned costs to be a material weakness.

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

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



Mary Taylor, CPA
Auditor of State

April 21, 2010

**HARMONY COMMUNITY SCHOOL
HAMILTON COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2008**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Disclaimer
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major Federal programs?	Yes
(d)(1)(iv)	Were there any other significant deficiencies in internal control reported for major Federal programs?	Yes
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Adverse
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	Title I – 84.010 21 st Century – 84.287
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2008-001

Finding for Recovery – Student Residency

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 Revised 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.

Residency – Students Under the Age of 18

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 2007-2008 school year, we identified five students 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, these students resided apart from the 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 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 these students in the amount of \$16,001.

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 \$16,001, and in favor of the Ohio Department of Education (ODE) on behalf of the students’ resident school districts.

Of the five students indicated above the School improperly received base foundation funding totaling \$16,001. 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.

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.”

**FINDING NUMBER 2008-001
(Continued)**

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 2007-2008 school year, we identified 15 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 \$45,252.

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 \$45,252, and in favor of the Ohio Department of Education (ODE) on behalf of the students' resident school districts.

During the 2008 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 15 students indicated above the School improperly received base foundation funding totaling \$45,252. 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 2008-002

Finding for Recovery – Lack of Support for School Attendance

Ohio Revised Code, Section 3314.03(A)(11)(a), states that the contract between a sponsor and the governing authority must specify that "the school will provide learning opportunities to a minimum of twenty-five students for a minimum of nine hundred twenty hours per school year."

During the 2007-2008 school year, we identified two 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 for the minimum of 920 hours. We could also not locate transcripts, grades, schedules or attendance records for these two students in the DASL system. The total overfunding for these two students was \$1,684.

**FINDING NUMBER 2008-002
(Continued)**

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 \$1,684 and in favor of the Ohio Department of Education (ODE) on behalf of the students' resident school districts.

Of the two students indicated above the School improperly received base foundation funding totaling \$1,684. 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 2008-003

Finding for Recovery – 105 Consecutive Hours Missed

Ohio Revised Code, Section 3314.03(A)(6)(b), states that a copy of every contract entered into under this section shall be filed with the superintendent of public instruction. Each contract entered into between a sponsor and the governing authority of a community school shall specify a requirement that the governing authority adopt an attendance policy that includes a procedure for automatically withdrawing a student from the school if the student without a legitimate excuse fails to participate in one hundred five consecutive hours of the learning opportunities offered to the student.

One student had more than 105 consecutive hours missed. His withdrawal date should have been the date he accumulated 105 consecutive hours missed. The school received funding for 18 days past the date he missed 105 consecutive hours totaling \$601.

Any student with 105 consecutive hours missed should immediately be withdrawn from the School. We recommend the school ensure all students with 105 consecutive hours of absences immediately be withdrawn from the School and reported to the Ohio Department of Education so funding will cease.

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 \$601 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 \$601. 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 2008-004

Finding for Recovery – Comparison of Services Rendered to Services Billed

Ohio Revised Code, Section 3314.03(A)(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.

**FINDING NUMBER 2008-004
(Continued)**

The School did not provide documentation supporting the 920 hours of educational opportunities available to certain students participating in academic and non-academic activities each year at Harmony Community School. 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. Based on this calculation, we determined that Harmony Community School was overfunded by the Ohio Department of Education by \$27,471.

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 \$27,471 and in favor of the Ohio Department of Education (ODE) on behalf of the students' resident school districts.

For the students indicated above the School improperly received base foundation funding totaling \$27,471. 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 2008-005

Finding for Recovery – Adult Continuing Education (ACE) Program

The School offered the ACE (Adult Continuing Education) program for the 2008 school year. The program was designed for students to attend six to seven instructional hours per week and was a split day program (morning and afternoon sessions). The curriculum was taught in nine week blocks and included social studies, writing/reading, math and science. At the end of the nine weeks, the student took a test consisting of questions from the Texas Assessment Bank. For each section passed, the student no longer attended that class in the next session.

Ohio Revised Code, Section 3314.03(A)(11)(a), states that the contract between a sponsor and the governing authority must specify that "the school will provide learning opportunities to a minimum of twenty-five students for a minimum of nine hundred twenty hours per school year." During the 2008 school year, ACE students' attendance was tracked separately from the traditional programs but the students were included in the CSADM database submitted to ODE to obtain funding. We determined students participating in this program did not participate in traditional programs offered by the School.

The School did not provide documentation supporting a 920 hour curriculum existed for this program for the 2008 school year. The School did provide a summary of the curriculum documenting how each student would attain the required 920 educational opportunity hours. In our review, we noted the curriculum:

- Provided estimates for certain areas of the curriculum instead of expected learning opportunities.
- Included hours for completing the portfolio process and the required hours for work, community service, and a school-related activity. However, the curriculum did not take into account what opportunities were provided when the non-academic requirements had been completed in a previous year.

**FINDING NUMBER 2008-005
(Continued)**

The School did not provide documentation supporting the students' participation in educational opportunities in the ACE program or other traditional educational programs which would entitle the School to funding for these students for this school year except for an Excel spreadsheet showing the hours each student obtained. Additionally, no documentation was maintained to support the hours spent at work, working on the student's portfolio, civil service, and/or school activities as noted in this spreadsheet.

Due to a lack of documentation supporting that students participated in 920 hours of educational opportunities, the School was not entitled to received funding of \$564,837.

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 \$564,837 in favor of the Ohio Department of Education (ODE) on behalf of the students' resident school districts.

Of the students indicated above the School improperly received base foundation funding totaling \$564,837. 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 2008-006

Finding for Recovery – Transition Program

During the 2008 school year, the School offered the Transition Program. This program was for students who had completed their academic requirements and were in the process of completing their non-academic requirements. Non-academic requirements included civil service, school activity, completing a portfolio and passing the Ohio Graduation Test.

Ohio Revised Code, Section 3314.03(A)(11)(a), states that the contract between a sponsor and the governing authority must specify that "the school will provide learning opportunities to a minimum of twenty-five students for a minimum of 920 hours per school year".

The School did not provide documentation supporting the 920 hours of educational opportunities available to students participating in the Transitional Program or other traditional education programs that would entitle the School to funding for these students.

Due to the lack of required documentation supporting the students' participation in 920 hours of educational opportunities, the School was not entitled to receive funding of \$235,387.

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 \$235,387, and in favor of the Ohio Department of Education on behalf of the students' resident school districts.

Of the students indicated above the School improperly received base foundation funding totaling \$235,387. 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 2008-007

Finding for Recovery – Overpayment to Tracy Hodges

Tracy Hodges was paid for 88 hours for the pay period ending October 23, 2007. However, a review of her Employee Detail Report showed she only worked 67.5 hours. There was an additional day in which there was an “In” time but no “Out” time. We determined the “In” time documented should have been her “Out” time. We also determined she worked 5.25 hours for this day for a total of 72.5 hours worked for the pay period ending October 23, 2007. Accordingly, she was overpaid by 15.25 hours at \$12.20/hour totaling \$186.

Also, Tracy Hodges was paid for 88 hours for the pay period ending May 8, 2008. However, a review of her Employee Detail Report showed she only worked 85.07. She was overpaid by 3 hours at \$12.20/hour totaling \$36. The total amount overpaid to Tracy Hodges was \$222. 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 Revised Code Section 117.28**, a Finding for Recovery for public monies illegally expended is hereby issued against Tracy Hodges, in the amount of \$222, and in favor of the Harmony Community School’s General Fund, in the amount of \$222.

FINDING NUMBER 2008-008

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 the GAAP conversion process and proper footnote disclosures. This lack of oversight is illustrated by the following conditions:

- The June 30, 2007 net assets of (\$3,410,420) were not reported in the School’s 2008 financial statements. Instead the School reported these net assets at (\$481,995) for a difference of \$2,928,425.
- While the Management’s Discussion and Analysis (MD&A) accompanying the School’s financial statements is unaudited, during the audit process we traced the 2007 amounts noted in the MD&A to the prior audit report. The amounts noted in the MD&A for 2007 did not trace to the 2007 financial statements and were not accurate.
- 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 address would be that of the School’s Sponsor: Buckeye Community Hope Foundation, 3021 East Dublin-Granville Road, Columbus, Ohio 43251.
- Adjustments found during the fiscal year ended June 30, 2006 and fiscal year ended June 30, 2007 audits were posted to those financial statements; however, those audit adjustments were not carried forward to the 2008 financial statements. The following variances were noted:

**FINDING NUMBER 2008-008
(Continued)**

	June 30, 2007 per audited report	Beginning balances per 2008 trial balance	Difference
Capital Assets, Net Depreciation	\$2,603,908	\$2,541,183	\$62,725
Accounts Payable	230,465	156,848	73,617
Intergovernmental Payable	236,559	65,966	170,593
Loans Payable	12,500	16,000	(3,500)
Line of Credit Payable	110,742	109,490	1,252
Outstanding Checks over Bank Balance	182,959	82,959	100,000
Foundation Overpayment	2,620,995	0	2,620,995
Capital Leases Payable	9,325	9,367	(42)
Due in More than One Year	2,304,982	2,276,747	28,235
Invested in Capital Assets, net of related Debt	212,094	180,865	31,229
Unrestricted	(3,622,514)	(662,860)	(2,959,654)
Net Assets	(3,410,420)	(481,995)	(2,928,425)

- The School did not include eight items totaling \$72,027 in their Accounts Payable account that should be included in the account. In addition, the School included payables to the Ohio Department of Job and Family Services (ODJFS) in the Accounts Payable which should have been included in Intergovernmental Payable.
- The School failed to report their liability to the ODJFS of \$227,451 on their financial statements.
- Capital asset adjustments for 2008 and inaccurate beginning balances as noted in the Management Letter were not corrected in the accompanying financial statements. This also affects the capital asset 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 \$2,513,752 instead of \$2,433,331 for a difference of \$80,421.
- The amount of Accounts Payable reported in the financial statements should be \$117,595 instead of \$456,936, for a difference of \$339,341.
- 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 Note 17 of the Notes of 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.
- The adjustments noted in Finding 2008-009 below for the posting of transactions were not reflected in the accompanying financial statements.

FINDING NUMBER 2008-008
(Continued)

- The Statement of Cash Flows is also inaccurate due to the above adjustments not being posted and the 2007 audit adjustments not being considered during the fiscal year 2008 GAAP conversion.
- The capitalization threshold and the furniture, fixtures, and equipment useful life noted in Note 2F of the Notes to 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 incorporate these differences.
- Incorrect amounts of insurance coverage are reflected in Note 6a of the Notes to the Basic Financial Statements for property and liability insurance.
- The School disclosed inaccurate required contributions for pension obligations for 2008, 2007 and 2006 for the State Employees Retirement System and State Teachers Retirement System as reported in Note 7 of the Notes to the Basic Financials Statements.
- Note 10 in the Notes to the Basic Financial Statements regarding Long-Term Obligations is inaccurate. The footnote does not reflect the 2007 audit adjustments so the column headed "Principal Outstanding 6/30/07" does not trace to the 2007 audit report. Also, this footnote does not reflect the adjustments as noted in the Management Letter recommendation regarding debt payments.
- The capital lease payable disclosure (Note 12 of the Notes to the Basic Financial Statements) does not include the sign lease from Manifest Funding.
- The first three paragraphs of Note 18 – Subsequent Events in the Notes to the Basic Financial Statements happened before June 30, 2008 and therefore should not be included in the Subsequent Event footnote.
- The AICPA Audit and Accounting Guide *State and Local Governments* Section 4.87 and GASB Cod. 2300.106(h) requires financial statement disclosure of significant violations of "finance-related legal and contractual provisions." The School did not disclose these violations. The material non-compliance findings as noted in this Schedule of Findings and Questioned Costs should be summarized in the Notes to the Basic Financial Statements to meet these requirements.

The School did not make the adjustments noted above to the financial statements, including the Notes to the financial statement, or their accounting records. The table below incorporates all differences noted in the table above and in Finding Number 2008-009.

**FINDING NUMBER 2008-008
(Continued)**

	Amount per financial statements	Amount should have been reported in financial statements	Difference
Capital Assets, Net Depreciation	\$2,433,331	\$2,513,752	\$80,421
Accounts Payable	456,936	117,595	(339,341)
Intergovernmental Payable	52,054	279,505	227,451
Line of Credit Payable	99,898	102,773	2,875
Foundation Overpayment	0	2,620,995	2,620,995
Capital Leases Payable	3,683	18,891	15,208
Mortgage Payable	94,433	122,032	27,599
Due in More Than One Year	2,178,631	2,206,866	28,235
Invested in Capital Assets, Net of Related Debt	150,584	181,813	31,229
Unrestricted	(753,541)	(3,713,195)	(2,959,654)
School Foundation	2,294,647	2,713,604	418,957
DPIA	79,197	52,195	(27,002)
Special Education	584,737	567,701	(17,036)
Parity Aid	38,381	34,958	(3,423)
Other Operating Revenues	46,499	78,436	31,937
Fringe Benefits and Payroll Taxes	856,133	966,330	110,197
Purchased Services	897,573	833,820	(63,753)
Depreciation	116,285	126,866	10,581
Other Expenses	38,678	50,587	11,909
Federal and State Grants	1,028,160	819,239	(208,921)
Interest Expense	(195,668)	(188,825)	6,843
Net Assets, Beginning of Year	(481,995)	(3,410,420)	2,928,425

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 2008-009

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 transactions. This lack of oversight is illustrated by the following conditions:

- School Foundation was understated by \$418,957.
- Poverty Based Aid was overstated by \$27,002.
- Special Education was overstated by \$17,036.
- Parity Aid was overstated by \$3,423.
- Federal and State Grants were overstated by \$208,921.
- Miscellaneous Revenue was understated by \$11,697.
- Fringe Benefits was understated by \$174,272.
- Support was not maintained for any (76/76) federal receipts. We confirmed with the Ohio Office of Budget and Management and the Ohio Department of Education state and federal receipts were received and deposited by the school; however, we were not presented with any supporting documentation of miscellaneous receipts, which is included in other operating revenues on the financial statements, such as student fees, field trips, rental income, fundraisers or other. Additionally, bank deposit slips were not found for over-the-counter receipts.

To improve record keeping and accountability of receipts we recommend that all state and federal revenue receipts be posted properly.

The School did not make the adjustments noted above to the financial statements or their accounting records. These adjustments are included as part of the table in Finding 2008-008.

FINDING NUMBER 2008-010

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. 59 out of the 65 transactions tested (91%) had no expense request forms. Two of the items that had an expense request form had invoices that predated the expense request form. Therefore, 61 out of the 65 transactions tested (94%) were not approved by the director prior to the purchase.

**FINDING NUMBER 2008-010
 (Continued)**

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 2008-011

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:

<i>Date</i>	<i>Check #</i>	<i>Vendor</i>	<i>Amount</i>
12/06/2007	16706	Attorney General, State of Ohio	\$2,185.14
12/20/2007	16786	Olive Garden	425.00
07/12/2007	15841	Speedway SuperAmerica LLC	1,389.98

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

- As noted in Finding 2008-009, the School did not maintain support for 76/76 of federal receipts. We were able to trace receipts to the Distribution Transaction Listing, Federal Subsidy Report, and the CCIP application on the Ohio Department of Education’s website.
- The School failed to maintain a General Ledger for the audit period.
- In relation to student data, the School did not provide:
 - ACE attendance data for any students.
 - 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 2008-012

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.

**FINDING NUMBER 2008-012
(Continued)**

For nine of 25 teachers and teacher's aides tested, or 36%, 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 2008-013

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 Section 117-2-03 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 2008 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 2008-014

Significant Deficiency

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.

For the period July 1, 2007 through June 30, 2008, Harmony Community School (the School) provided instruction to the students starting in August and ending in May. A review of the School calendar indicated the School was in session for 178 days. A review of the Data Analysis for Student Learning (DASL) system indicated the School was in session for 176 days. The number of days submitted to the Ohio Department of Education, per the School User Profile report, was 168. The discrepancies between the profile, calendar, and DASL system resulted in the School receiving funding sooner than they are entitled. It may also result in over-funding for students that do not attend Harmony for the entire school year. We recommend the School reconcile the differences between these sources and report accurate information to the Ohio Department of Education.

FINDING NUMBER 2008-015

Noncompliance/Material Weakness

Finding Number 2008-016 describes deficiencies in preparing the School's Schedule of Federal Awards Revenues and Expenditures. We believe this finding also represents material noncompliance and a material weakness under 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*.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

FINDING NUMBER 2008-016

Noncompliance Citation / Material Weakness / Questioned Cost-Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Level of Effort and Earmarking, Period of Availability of Federal Funds, Procurement and Suspension and Debarment, and Reporting

Finding Number	2008-016
CFDA Title and Number	10.553 National School Breakfast 10.555 National School Lunch 84.010 Title I 84.027 Special Education Grants to States (IDEA B) 84.186 Safe and Drug Free Schools 84.287 21 st Century Grant 84.298 Title VI-Innovative Education Program Strategies 84.318 Title II-D-Technology Literacy Challenge Fund 84.367 Improving Teacher Quality
Federal Award Year	2008
Federal Agency	U.S. Department of Agriculture U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

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.

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.

**FINDING NUMBER 2008-016
(Continued)**

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 .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.

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 provide a list of Title I expenditures to support the amount reported on the Federal Schedule.
- The School did not report National School Breakfast revenues and expenditures of \$27,484 and National School Lunch revenues and expenditures of \$82,823. We recommend the School include all federal receipts and expenditures on their Federal Schedule.
- The School understated their 21st Century receipts by \$24,979.
- Final Expenditure Reports (FER), which are required by the Ohio Department of Education, were not supported with adequate documentation. See also Finding 2008-019.
- The 21st Century Grant fy2008 Project Smart Expense Detail report only showed expenses totaling \$70,128. The Auditor of State created 21st Century Grant expenditure summary using the biweekly expense spreadsheets and payroll information for the Project Manager showed total expenditures of \$220,111. We were unable to account for 21st Century Grant funds expended totaling \$4,700. Per the Project Cash Request (PCR) and Final Expenditure Report (FER), the School received and expended \$224,811. The PCR summary and the FER agrees to the Federal Schedule. We recommend the School provide detained reports for all expenditures noted on the Final Expenditure Report. The reports should include a running balance of funds available.

**FINDING NUMBER 2008-016
(Continued)**

- Harmony was unable to provide source documentation for grant expenditures and therefore we are questioning amounts equal to the Federal awards received during the year ended June 30, 2008 as follows:

Title I	\$257,114
Special Education Grants to States (IDEA B)	164,290
Safe and Drug Free Schools	996
Title VI-Innovative Education Program Strategies	5,738
Title II-D-Technology Literacy Challenge Fund	2,623
Improving Teacher Quality	15,747

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 2008-022.

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.

In addition, the School did not establish and maintain effective internal control over compliance with the requirements for period of availability, procurement and suspension and debarment, and identifying Schools and LEA's needing improvement applicable to their Title I and 21st Century Grant programs as evidenced by the following:

- Of 60 expenditures, the 21st Century Project Manager did not sign one expense request form and six expense request forms were not located by the School. She approved four timesheets of her children. She also approved one reimbursement expense for herself. A total of 14 expense reports/timesheets not properly approved, or 23% of the timesheets tested. We recommend the Project Manager review and approve all expense reports/timesheets, with the exception of the expenses for herself and her children. Someone other than the Project Manager should approve expense reports/timesheets for the Project Manager and her children.
- Documentation was not maintained for pay rates established and that W-4's were not maintained in personnel files. Six out of six employees tested did not have their job application in their file.

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
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 2008-017

Noncompliance Citation / Significant Deficiency - Eligibility

Finding Number	2008-017
CFDA Title and Number	10.553 National School Breakfast 10.555 National School Lunch
Federal Award Year	2008
Federal Agency	U.S. Department of Agriculture
Pass-Through Agency	Ohio Department of Education

7 C.F.R. 245.6 provides, in part that to qualify a child for meals/milk served free or at reduced price under the program(s), the child's family must annually submit an application to the School Food Authority, in this case the School. The application must be approved and maintained on file. The application must establish that the child's family income and family size place him/her within income eligibility standards issued by the State agency in accordance with guidelines published by the Food and Nutrition Services (FNS) of the U.S. Department of Agriculture (USDA).

7 C.F.R. 245.6(a) requires that by December 15th of each school year, the School must verify the information presented on a sample of the applications that it has approved for free or reduced price meals. The verification sample size is based on the number of approved applications on file as of October 31st. The School Food Authority may select the sample by either (1) random sampling (the lesser of 3,000 approved applications or 3 percent of total approved applications on file, all randomly selected), or (2) focused sampling, in which the School Food Authority must verify a sample that is, at a minimum, the sum of:

(1)- The lesser of one percent or 1,000 of the total number of approved applications (both income and categorical) selected from households claiming income within \$100 monthly or \$1,200 annually of the income eligibility guidelines for free and reduced price meals; and

(2)- The lesser of .5 percent or 500 of the total number of applications that were approved based on categorical eligibility, selected from applications with a Food Stamp Program or TANF cases number.

The School shall retain copies of the information reported for the verification for a minimum of 3 years.

Documentation was not maintained for the verification process. We recommend the School maintain documentation of the verification process.

We recommend the School implement procedures to ensure all free and reduced lunch applications are accurately completed and submitted annually for each eligibility period. The School should retain all applications to provide verification of student eligibility for free and reduced lunches. We recommend the School take due care over the verification process.

FINDING NUMBER 2008-018

Noncompliance Citation / Significant Deficiency / Questioned Cost – Activities Allowed or Unallowed and Allowable Costs / Cost Principles

Finding Number	2008-018
CFDA Title and Number	84.010 Title I
Federal Award Year	2008
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

20 U.S.C 6315 Title I, Section 1115 of the Elementary and Secondary Education Act, (ESEA) requires that in a targeted assistance school, funds available under Part A may be used only for programs that are designed to help participating children meet the State’s student academic achievement standards expected of all children.

Allowable activities in these schools include, but are not limited to instructional programs, counseling, mentoring, other pupil services, college and career awareness and preparation, services to prepare students for the transition from school to work, services to assist preschool children in the transition to elementary school programs, parental involvement activities, and professional staff development.

If health, nutrition, and other social services are not otherwise available from other sources to participating children, Part A funds may be used as a last resort to provide such services. The School’s plan will provide a description of the general nature of the services to be provided with Part A funds.

2 C.F.R. Part 225 Appendix A Section C(1)(j) (formerly known as OMB Circular A-87, Attachment A Section C, 1, j) states that to be allowable under federal awards, costs must be adequately documented.

2 C.F.R. Part 225 Appendix B Section 8(a). (formerly known as OMB Circular A-87, Attachment B Section 8 a.) states in part that the costs of compensation for personnel services are allowable to the extent that the total compensation for individual employees:

- (1) Is reasonable for the services rendered and conforms to the established policy of the governmental unit consistently applied for both Federal and non-Federal activities;
- (2) Follows an appointment made in accordance with a governmental unit’s laws and rules and meets merit system or other requirements required by Federal Law; and
- (3) Is determined and supported as provided in subsection h.

2 C.F.R. Part 225 Appendix B Section 8(h)(3) states that where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

2 C.F.R. Part 225 Appendix B Section 8(h)(4) states that where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards.

**FINDING NUMBER 2008-018
 (Continued)**

2 C.F.R. Part 225 Appendix B Section 26(c) (formerly known as OMB Circular A-87) states that only materials and supplies actually used for the performance of a Federal award may be charged as direct costs.

According to the Final Expenditure Report, during fiscal year 2008, the School paid salaries and benefits of \$189,789.96 to various employees. These employees neither prepared certificates nor personnel activity reports. Because there were no activity reports, it was undeterminable as to the extent these salaries and benefits would be within the scope of the Title I program objectives.

A portion of each employee's salary and fringe benefits went towards Title I Salaries and Fringe Benefits. The School was not approved to operate a school wide program. Of the 25 teachers tested, nine were not properly licensed.

Accordingly, a questioned cost is issued in the amount of \$189,789 (included in the questioned costs in Finding 2008-016) that the School expended on salaries and benefits for the Title I grant program during fiscal year 2008.

The School should ensure that documentation supporting direct costs of the Title I Program is maintained to demonstrate expenditures meet the direct costs provisions for expenditures incurred. The School should also contact the Ohio Department of Education to determine if repayment of these funds is necessary.

FINDING NUMBER 2008-019

Noncompliance Citation / Material Weakness – Allowable Costs/Cost Principles, Earmarking, Reporting

Finding Number	2008-019
CFDA Title and Number	84.010 Title I 84.027 Special Education Grants to States (IDEA B) 84.186 Safe and Drug Free Schools 84.287 21 st Century Grant 84.298 Title VI-Innovative Education Program Strategies 84.318 Title II-D-Technology Literacy Challenge Fund 84.367 Improving Teacher Quality
Federal Award Year	2008
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

The Ohio Department of Education established grant guidelines as part of the 2008 Comprehensive Continuous Improvement Plan (CCIP) Application dated May 7, 2008, which include the following requirements:

FINDING NUMBER 2008-019
(Continued)

1. 10% RULE – Entities may expend up to 10% more than approved in the budget for an Object Code Total without submitting a budget revision (e.g., the total amount approved for salaries, object code 100, is \$1,000.00 – entities may spend up to \$1,100.00). This authority does not permit unauthorized expenditures. (34 C.F.R. Section 80.30)
2. All amounts reported on the FER must reconcile to the district's or agency's accounting system used to prepare annual financial statements.

Contrary to the above requirements, the School's Consolidated Final Expenditure Report (FER) for the all of its grants did not reconcile to the accounting system used to prepare the annual financial statements. The amounts reported on the FER were the budgeted amounts, not the actual cash basis expenditure amounts, as required.

In addition, the School did not provide a breakdown of expenditures by object; therefore, we were unable to determine if the totals reported by object were within 10% of the budgeted amounts.

Furthermore, as noted in Finding 2008-016, the School lacked effective controls over period of availability for Title I and the 21st Century Grant and we were unable to determine if the School complied with period of availability requirements for Title I due to the lack of documentation for expenditures.

Further, **34 C.F.R. Section 80.43(a)** states, "If a grantee or subgrantee materially fails to comply with any term of an award, whether stated in a Federal statute or regulation, an assurance, in a State plan or application, a notice of award, or elsewhere, the awarding agency may take one or more of the following actions, as appropriate in the circumstances:

- (1) Temporarily withhold cash payments pending correction of the deficiency by the grantee or subgrantee or more severe enforcement action by the awarding agency,
- (2) Disallow (that is, deny both use of funds and matching credit for) all or part of the cost of the activity or action not in compliance,
- (3) Wholly or partly suspend or terminate the current award for the grantee's or subgrantee's program,
- (4) Withhold further awards for the program, or
- (5) Take other remedies that may be legally available.

To achieve compliance with these requirements, we recommend that the Treasurer review the Final Expenditure Report for each grant prior to its being submitted by the School and compare that report to the actual expenditures recorded in the expenditure ledgers. We also recommend the School provide a breakdown of expenditures by object. Furthermore, we recommend the School develop and maintain effective controls over all grant requirements.

FINDING NUMBER 2008-020

Noncompliance Citation / Significant Deficiency / Question Costs – Allowable Costs / Cost Principles

Finding Number	2008-020
CFDA Title and Number	84.287 21 st Century Grant
Federal Award Year	2008
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

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

2 C.F.R. Part 225 (formerly known as OMB Circular A-87), Appendix C, Section A.1 also provides, in part, that all costs and other data used to distribute the costs included in the plan should be supported by formal accounting and other records that will support the propriety of the costs assigned to Federal awards.

There were 7 instances in which 21st Century Grant federal funds were used for unallowable expenditures or expenditures for which we did not receive documentation to support (invoices) resulting in questioned costs totaling \$1,611 as follows (these questioned costs are included in Finding 2008-016):

Check #:	Date:	Amount Questioned:	Vendor:	Description:
16128	09/04/2007	\$ 510	Sam's Club	Food
16130	09/04/2007	58	Country Fresh Market	Fruit
16320	10/08/2007	342	Sam's Club	After school snacks
16550	11/15/2007	200	Zak Nordyke	Speaker / training – no invoice
16789	12/20/2007	100	Demarco Payton	Videographer – no invoice
17184	03/14/2008	97	Deborah Brock-Blanks	Food
17313	04/15/2008	304	Samuel Harris	Field trip lunch

We recommend the School use the 21st Century grant funds for expenditures allowable under Circular A-87. The School should maintain supporting documentation for all expenditures.

FINDING NUMBER 2008-021

Noncompliance Citation / Significant Deficiency – Equipment and Real Property Management

Finding Number	2008-021
CFDA Title and Number	84.287 21 st Century Grant
Federal Award Year	2008
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

FINDING NUMBER 2008-021
(Continued)

2 C.F.R. Section 215.34(f) requires recipient property management standards for equipment acquired with Federal funds to include all of the following:

- (1) Equipment records shall be maintained accurately and shall include the following: description of equipment; manufacturer's serial number, model number, Federal stock number, national stock number, or other identification number; source of equipment, including award number; whether title vests in the recipient or Federal government; acquisition date and cost; information for calculating percentage of Federal participation in cost; location and condition of equipment; unit acquisition cost; and disposition data.
- (2) Equipment owned by the Federal Government shall be identified to indicate Federal ownership.
- (3) A physical inventory shall be taken and the results reconciled with equipment records at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the difference. The recipient shall, in connection with the inventory, verify the existence, current utilization, and continued need for the equipment.
- (4) A control system shall be in effect to insure adequate safeguards to prevent loss, damage, or theft of the equipment. Any loss, damage, or theft of equipment shall be investigated and fully documented; if the equipment was owned by the Federal Government, the recipient shall promptly notify the Federal awarding agency.
- (5) Adequate maintenance procedures shall be implemented to keep equipment in good condition.
- (6) Where the recipient is authorized or required to sell equipment, proper sales procedures shall be established which provide for competition and result in the highest possible return.

The School did not maintain a list of capital asset additions acquired with 21st Century grant funds during the audit period. The School did purchase capital assets during the fiscal year. These assets were not listed on the School's capital assets additions list.

Also, the School did not document the sale of a van in the amount of \$4,000 that was purchased with 21st Century grant funds. The School did not advertise for the sale of this vehicle.

We recommend the School maintain a separate list of assets purchased with 21st Century Grant funds. The list should be updated annually to include assets acquired or deleted. We recommend the School take a physical inventory and reconcile this inventory with equipment records at least once every two years. We recommend the School implement a control system to safeguard assets and implement adequate maintenance procedures. We recommend the School use proper sales procedures when selling assets purchased with Federal grant funds.

FINDING NUMBER 2008-022

**Noncompliance Citation / Material Weakness – Procurement and Suspension and Debarment;
 Maintenance and Level of Effort**

Finding Number	2008-022
CFDA Title and Number	84.010 Title I
Federal Award Year	2008
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Procurement and Suspension and Debarment

Schools that receive federal funds must comply with the EDGAR regulations found at 34 CFR 80.36; Procurement and 34 CFR 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 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 a local educational agency (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 an LEA shall use Federal funds received under this part only to supplement the funds that would, in the absence of the Federal funds, be made available from non-Federal sources for the education of participating students. In no case may an LEA use Federal program funds to supplant funds from non-Federal sources.

As noted in Finding 2008-016, 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 JUNE 30, 2008**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2007-001	Finding for recovery against Deland McCullough regarding utility payments.	No*	Not corrected – not repaid as of April 21, 2010.
2007-002	Finding for recovery against Deborah Brock-Blanks.	No*	Not corrected – not repaid as of April 21, 2010.
2007-003	Finding for recovery against Pirate's Cove Graphics.	No*	Not corrected – not repaid as of April 21, 2010.
2007-004	Finding for recovery against Jeff Engle.	No*	Not corrected – not repaid as of April 21, 2010.
2007-005	Finding for recovery against Jan Eggleston.	No*	Not corrected – not repaid as of April 21, 2010.
2007-006	Finding for recovery against Deborah Brock-Blanks.	No*	Not corrected – not repaid as of April 21, 2010.
2007-007	Finding for recovery against Vivian Pogue.	No*	Not corrected – not repaid as of April 21, 2010.
2007-008	Finding for recovery against Tanquary Dale.	No*	Not corrected – not repaid as of April 21, 2010.
2007-009	Failure to implement controls over payroll processing.	No*	Not corrected. Reissued in Management Letter.
2007-010	Lack of accurate reconciliations	Yes	Corrected.
2007-011	Failure to development and implement procedures over capital asset records.	No*	Not corrected. Reissued in Management Letter.
2007-012	Lack of management oversight over GAAP conversion process.	No*	Not corrected. Reissued as Finding 2008-008.

* The periods ending June 30, 2007 and June 30, 2008 were audited concurrently.

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2007-013	Lack of management oversight in posting and collection of receipts.	No*	Not corrected. Reissued as Finding 2008-009.
2007-014	Failure to complete and approve expense request forms.	No*	Not corrected. Reissued as Finding 2008-010.
2007-015	Ohio Revised Code, Section 149.351(A), failure to maintain records.	No*	Not corrected. Reissued as Finding 2008-011.
2007-016	Failure to maintain adequate collateral for deposits.	No*	Partially corrected. Reissued in the Management Letter.
2007-017	Ohio Revised Code, Section 3314.03(D), failure of sponsor to monitor activity.	No*	Partially corrected. Reissued in the Management Letter.
2007-018	Ohio Revised Code, Section 3314.03(A)(10), failure to employ licensed teachers.	No*	Not corrected. Reissued as Finding 2008-012.
2007-019	Ohio Administrative Code, Section 117-6-07(B), failure to have bonded Treasurer.	Yes	Corrected.
2007-020	-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 2008-016.
2007-021	7 CFR 245.6, failure to maintain free and reduced price lunch income determination forms.	No*	Not corrected. Reissued as Finding 2008-017.

* The periods ending June 30, 2007 and June 30, 2008 were audited concurrently.

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2007-022	-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.	No*	Not corrected. Reissued as Finding 2008-018.
2007-023	34 CFR Section 80.30(c)(1), failure to limit expenditures to budgeted amounts.	No*	Not corrected. Reissued as Finding 2008-019.
2007-024	2 CFR Part 225, questioned costs for 21 st Century Grant.	No*	Not corrected. Reissued as Finding 2008-020.
2007-025	2 CFR Section 215.34(f), failure to maintain list of capital asset additions for 21 st Century grant.	No*	Not corrected. Reissued as Finding 2008-021.
2007-026	Failure to comply with Procurement and Suspension and Debarment; Maintenance and Level of Effort requirements.	No*	Not corrected. Reissued as Finding 2008-022.

* The periods ending June 30, 2007 and June 30, 2008 were audited concurrently.



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**