HARMONY COMMUNITY SCHOOL
HAMILTON COUNTY

SINGLE AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Mary Taylor, CPA
Auditor of State

HARMONY COMMUNITY SCHOOL
HAMILTON COUNTY

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INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Directors:

We have audited the accompanying basic financial statements of Harmony Community School, Hamilton County, Ohio (the School), as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as described below, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

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.

In our opinion, except for the potential omission of pending and threatened litigation, claims, and assessments and related disclosures for which we were unable to obtain sufficient evidence, the financial statements referred to above present fairly, in all material respects, the financial position of Harmony Community School as of June 30, 2007, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 16 to the financial statements, the School has suffered recurring losses from operations and has a net asset deficiency of ($3,410,420). Note 18 describes Management's plans regarding these matters. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The Auditor of State has billed Harmony Community School for audit services provided for the school years June 30, 2005 through June 30, 2009. As of the date of this report the School has unpaid audit fees totaling $118,410.

As described in Note 18, 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 September 21, 2009, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit 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 auditing procedures applied in the audit of the financial statements and accordingly we express no opinion on it.

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 21, 2009

HARMONY COMMUNITY SCHOOLS
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007

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, 2007. 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 $1,258,310, which represents a 58 percent decrease from 2006. The School only realized a reduction in cash flow resulted of $24,787 compared to the decrease of $357,230 in 2006 showing that the large reduction was a result of accruals and not operations.

- Total assets decreased $464,268, which represents a 15 percent decrease from 2006. This decrease was primarily due to removal of the building structure from the School's records and depreciation on the School's other capital assets.

- Long-term liabilities decreased $99,760, which represents a 4.1 percent decrease from 2006. 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 2007?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

Table 1 provides a summary of the School's net assets for fiscal year 2007 and fiscal year 2006:

(Table 1)
Net Assets

	2007	2006
Assets		
Current Assets	$25,540	$33,047
Capital Assets, Net	2,603,908	3,060,669
Total Assets	2,629,448	3,093,716
Liabilities		
Current Liabilities	3,743,886	2,841,084
Long Term Liabilities	2,304,982	2,404,742
Total Liabilities	6,039,868	5,245,826
Net Assets		
Invested in Capital Assets	212,094	320,006
Unrestricted	(3,622,514)	(2,472,116)
Total Net Assets	($3,410,420)	($2,152,110)

Total assets decreased $464,268 mainly due to the removal of the student housing facility from the records, less revenue received from the State, increased operation expenses and depreciation from the School's capital assets. Another significant change from 2006 in liabilities related to mortgage associated with the student facility purchase that was removed for 2007.

The School actually decreased long term liabilities by $99,760 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.

Table 2 shows the changes in net assets from fiscal year 2007 to fiscal year 2006, as well as a listing of revenues and expenses.

(Table 2)
Change in Net Assets

	2007	2006
Operating Revenues:		
State Foundation	$3,322,088	$3,991,324
DPIA	51	60,958
Special Education	488,506	630,597
Parity Aid	43,785	46,026
Charges for Services	5,000	0
Other Operating Revenue	182,285	176,095
Non-Operating Revenues:		
Federal and State Grants	867,147	749,339
Total Revenues	4,908,862	5,654,339
Operating Expenses:		
Salaries and wages	2,463,441	2,423,421
Fringe Benefits and Payroll Taxes	673,306	1,177,792
Purchased Services	1,403,216	1,281,196
Materials and Supplies	329,198	321,951
Deprecation	165,326	166,790
Other Expenses	9,947	0
Non-Operating Expenses:		
Loss on Disposal of Capital Assets	55,978	666
Foundation Judgment	846,222	1,774,773
Interest Expense	220,538	200,058
Total Expenses	6,167,172	7,346,647
Change in Net Assets	(1,258,310)	(1,692,308)
Beginning Net Assets	(2,152,110)	(459,802)
Ending Net Assets	($3,410,420)	($2,152,110)

While net assets decreased $1,258,310 from 2006 to 2007, the change was impacted by the State providing the School with less revenue compared to 2006 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 operating expenses by $326,716 or 6 percent as they worked towards maintaining balanced operations.

Capital Assets

At the end of fiscal year 2007 the School had $2,603,908 invested in building and building improvements, furniture, fixtures, and equipment, and vehicles which represented a decrease of $456,761 from 2006. This decrease was primarily due to the removal of the student housing facility. For more information on the School's capital asset refer to note 5 of the financial statements.

Debt Administration

The School retired $83,709 of the mortgage payable during 2007. The mortgage 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 the 2006-2007 school year, there were approximately 894 students enrolled in the School. The School received its finances mostly from state foundation. Per pupil aid for fiscal year 2007 amounted to $4,310 per student, which was a reduction of $923 per student from the prior year.

Contacting the School's Financial Management

This financial report is designed to provide our citizen's with a general overview of the School's finances and to show the School's accountability for the money that it receives. If you have questions about this report or need additional information contact Buckeye Community Hope Foundation, 3021 East Dublin-Granville Road, Columbus, Ohio 43231.

HARMONY COMMUNITY SCHOOL
STATEMENT OF NET ASSETS

JUNE 30, 2007

Assets:	
Current assets:	
Accounts receivable	$ 25,540
Total current assets	25,540
Noncurrent assets:	
Capital assets, net depreciation	2,603,908
Total noncurrent assets	2,603,908
Total Assets	2,629,448
Liabilities:	
Current liabilities	
Payables:	
Accounts	230,465
Accrued wages and benefits	238,298
Intergovernmental	236,559
Interest	5,846
Loans	12,500
Line of Credit	110,742
Outstanding Checks over Bank Balances	182,959
Due within One Year:	
Foundation Overpayment	2,620,995
Capital Leases Payable	9,325
Mortgage Payable	87,197
Total current liabilities	3,734,886
Non-Current liabilities	
Due in More than One Year	2,304,982
Total Liabilities	6,039,868
Net Assets:	
Invested in capital assets, net of related debt	212,094
Unrestricted	(3,622,514)
Total net assets	$ (3,410,420)

See accompanying notes to the basic financial statements

HARMONY COMMUNITY SCHOOL
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2007

Operating Revenues:	
State foundation	$ 3,322,088
DPIA	51
Special Education	488,506
Parity Aid	43,785
Charges for services	5,000
Other operating revenues	182,285
Total operating revenues	4,041,715
Operating Expenses:	
Salaries and wages	2,463,441
Fringe benefits and Payroll Taxes	673,306
Purchased Services	1,403,216
Materials and supplies	329,198
Depreciation	165,326
Other expenses	9,947
Total operating expenses	5,044,434
Operating Loss	(1,002,719)
Nonoperating revenues (expenses):	
Federal and State grants	867,147
Loss on Disposal of Capital Assets	(55,978)
Foundation Judgement	(846,222)
Interest Expense	(220,538)
Total nonoperating revenues (expenses)	(255,591)
Change in net assets	(1,258,310)
Net assets, beginning of year	(2,152,110)
Net assets, end of year	$ (3,410,420)

See accompanying notes to the basic financial statements

HARMONY COMMUNITY SCHOOL
STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2007

Cash flows from operating activities:	
Cash received from State of Ohio - Foundation	$ 3,322,088
Cash received from State of Ohio - DPIA	51
Cash received from State of Ohio - State	532,291
Cash received from other operating revenues	187,661
Cash payments for personal services	(3,211,029)
Cash payments for suppliers for goods and services	(1,646,373)
Cash payments for other expenses	(3,508)
Net cash used by operating activities	(818,819)
Cash flows from noncapital financing activities:	
Cash received from state and federal grants	842,168
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(7,277)
Proceeds from Line of Credit	100,000
Proceeds from Short Term Loans	82,000
Proceds from Short Term Borrowing	182,959
Principal paid on capital leases	(15,340)
Principal paid on mortgage payable	(83,709)
Principal paid on Short Term Loans	(66,000)
Principal paid on line of credit	(8,379)
Total interest paid on outstanding obligations	(232,390)
Net cash used by capital and related financing activities	(48,136)
Net change in cash and cash equivalents	(24,787)
Cash and Cash Equivalents at beginning of year	24,787
Cash and Cash Equivalents at end of year	(0)

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

Operating loss	(1,002,719)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	165,326
Change in assets and liabilities:	
Accounts receivable	17,280
Accounts payable	79,060
Accrued wages and benefits	(65,047)
Intergovernmental payable	(12,719)
Net cash used by operating activities	$ (818,819)

See accompanying notes to the basic financial statements

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NOTE 1 – DESCRIPTION OF THE SCHOOL AND THE REPORTING ENTITY

Harmony Community School, Hamilton County, Ohio (the School), is a non-profit corporation established by 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 the Board of Directors of the School. By-laws of the school were amended to allow for the creation of the Management Cabinet of the School. Members of the Cabinet were appointed by the Board of Directors. The contract provided for the commencement of School operations on September 16, 1998. During the fiscal year ended 2002, a contract extension for two years was executed. Then during the fiscal year ended 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.

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's finances meet the cash flow needs of its activities.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The School's financial statements are prepared using the accrual basis of accounting.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Expenses are recognized at the time they are incurred.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the School and its Sponsor. The contract between the School and its Sponsor does not prescribe a budgetary process for the School; therefore no budgetary information is presented in the financial statements.

E. Cash

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

F. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The School maintains a capitalization threshold of two 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	5 years
Vehicles	5 years

G. Intergovernmental Revenues

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

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Amounts awarded under the above named programs for the 2007 school year totaled $4,721,577.

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 ($182,959), and the available bank balance was $41,148. The entire bank balance was insured by the Federal Depository Insurance Corporation (FDIC). During fiscal year 2007, deposits exceeded FDIC by up to $158,329.

Investments: the School had no investments at June 30, 2007, or during the fiscal year.

NOTE 4 – RECEIVABLES

The School had no intergovernmental receivables at June 30, 2007.

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007:

	Balances 6/30/06	Additions	Deletions	Balance 6/30/07
Capital Assets Being Depreciated				
Building and Improvements	$3,300,000	$0	($300,000)	$3,000,000
Furniture, Fixtures, and Equipment	161,462	7,277	0	168,739
Vehicles	108,935	0	(21,783)	87,152
Total Capital Assets Being Depreciated	3,570,397	7,277	(321,783)	3,255,891
Less Accumulated Depreciation				
Buildings and Improvements	(410,000)	(100,000)	10,000	(500,000)
Furniture, Fixtures, and Equipment	(90,143)	(50,437)	0	(140,580)
Vehicles	(9,585)	(14,889)	13,071	(11,403)
Total Accumulated Depreciation	(509,728)	(165,326)	23,071	(651,983)
Total Capital Assets Being Depreciated, Net	$3,060,669	($158,049)	($289,712)	$2,603,908

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 2007, the School contracted with Federal Insurance Company 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

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

NOTE 6 – RISK MANAGEMENT (continued)

B. Workers' Compensation

The School pays the State Workers' Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

NOTE 7 – DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at 14 percent. The contribution rates are not determined actuarially, but are established by SERS's Retirement Board within the rates allowed by State statute. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by SERS' Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005, were $64,457; $96,731; and $90,374; 100 percent has been contributed for fiscal years 2007, 2006, and 2005.

B. State Teachers Retirement System of Ohio

The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits, annual cost-of-living adjustments, death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio web site at www.strsoh.org.

NOTE 7 – DEFINED BENEFIT PENSION PLANS (continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited services who becomes disabled may qualify for a disability benefit. Eligible spouses and dependants of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio revised Code provides statutory authority for member and employer contributions.

The School’s required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005, were $222,528; $199,725; and $63,747; 100 percent has been contributed for fiscal years 2007, 2006, and 2005. Contributions to the DB and Combined Plans for fiscal year 2007 were $4,159 made by the School and $7,828 made by the plan members.

NOTE 8 – POSTEMPLOYMENT BENEFITS

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

NOTE 8 – POSTEMPLOYEMENT BENEFITS (continued)

All STRS Ohio retirees who participated in the DB and Combined Plans and their dependants are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage is paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled $12,824 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2006, the balance in the fund was $3.5 billion. For the year ended June 30, 2006, net health care costs paid by STRS Ohio were $282,743,000 and STRS Ohio had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for the basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared 3.42 percent of covered payroll for fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, prorated for partial service credit. For fiscal year 2007, the minimum pay was established at $35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled $20,348.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2006, were $158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of $295.6 million. SERS had 59,492 participants currently receiving health care benefits.

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, 2007 were as follows:

Long Term Obligations	Principal Outstanding 6/30/06	Additions	Deductions	Principal Outstanding 6/30/07	Amounts Due in One Year
Mortgage-Park National	$1,808,680	$0	$61,877	$1,746,803	$65,299
Mortgage-Jewish Federation	634,844	0	21,832	613,012	21,898
Loans-National City	19,121	100,000	8,379	110,742	110,742
Philada Home Loan Mortgage	240,110	0	240,110	0	0
Capital Leases Payable	57,029	0	15,340	41,689	9,325
Total	$2,759,784	$100,000	$347,538	$2,512,246	$207,264

Mortgage – Park National: During fiscal year 2003, the School entered in a $2,000,000 mortgage payable with Park National Bank for ten years to help purchase the current building the School is operating in presently. The mortgage has an interest of 7.88% and will mature in 2013.

Mortgage – Jewish Federation: During fiscal year 2003, the School entered in a $700,000 mortgage payable with the Jewish Federation for twenty years to help purchase the current building the School is operating in presently. The mortgage has an interest of 7.91% and will mature in 2023.

Principal and interest requirements to retire long-term mortgage obligations outstanding at June 30, 2007 are as follows:

	Mortgage Obligations		
Years	Principal	Interest	Total
2008	$87,197	$185,591	$272,788
2009	94,433	178,356	272,789
2010	102,271	170,518	272,789
2011	110,762	162,026	272,788
2012	1,479,762	177,510	1,657,272
2013-2017	192,536	158,769	351,305
2018-2022	286,851	64,453	351,304
2023	6,003	38	6,041
Totals	$2,359,815	$1,097,261	$3,457,076

The School participates in the Ohio School Facilities Commission (OSFC) Loan Guarantee Program. This program offers assistance to community schools to help meet their school facility needs. Under this program, OSFC has guaranteed to Park National Bank the repayment by the School of the outstanding and unpaid loan proceeds up to $1,000,000.

NOTE 10 – LONG TERM OBLIGATIONS (continued)

The School entered into a land purchase contract for the Philada Home student facility. The School was required to close on the land by July 2006. The School also agreed to make monthly payments to the Philada Home fund to pay the outstanding mortgage on the building acquired during the fiscal year for student housing which also generated rental receipts from students living in the facility to offset the monthly payments. The School released the facility during 2007 and no longer owns or owes anything related.

NOTE 11 – LINE OF CREDIT

In 2004, the School entered into a line of credit with Provident Bank (now National City) with a limit of $36,495 at an interest rate of 0.75 percent above the prime rate. As of June 30, 2007, $10,742 was borrowed against the limit. In 2007, the School entered into another 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, equipment and general intangibles, assignment of payments 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 does not specifically exclude State foundation monies and extended beyond year-end, contrary to State statues.

NOTE 12 – CAPITAL LEASES PAYABLE

Capital assets consisting of vehicles and a sign have been capitalized on the statement of net assets in the amount of $92,595. 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 2007 totaled $41,689. 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, 2007.

Fiscal Year Ending June 30,	Liability
2008	$23,426
2009	15,714
2010	5,868
2011	5,379
Total	50,387
Less: Amount Representing Interest	(8,698)
Present Value of Net Minimum Lease Payments	$41,689

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, 2007.

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.

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.

NOTE 14 – PURCHASED SERVICES

Purchased Services during fiscal year 2007 were comprised of the following:

Professional Fees	$879,022
Insurance	173,306
Utilities	101,910
Student Development	97,072
Leasing	61,421
Transportation	15,228
Other	75,257
Total	$1,403,216

NOTE 15 – RELATED PARTIES

The Executive Director's brother-in-law, Cliff Black, is employed by the School. David Braukman is an administrator at the school. His wife is also employed as a counselor. Two Board members, Kate and Zak Nordyke, are the children of the Board President, Joan Barlage. Floyd Moore is the head of maintenance for the School. His wife, Lois Moore, and his daughter, Amy Moore, both worked for the maintenance department for the School. Board President, Joan Barlage, loaned the School $162,000 in fiscal year 2007. $13,500 of this was converted to a donation. At June 30, 2007, $12,500 was outstanding. In calendar year 2006, Joan Barlage donated $52,179 to the School. From 1/1/07 to 6/30/07, Board President Joan Barlage donated $16,124 directly to the School and made on-behalf donations of $18,323.

Deborah Brock-Blanks was the administrator for the 21st Century grant program. As administrator, she approved expenditures for the program. During the year, she approved expenditures for her children: Romniah Blanks, Msontai Blanks, and Monseh Blanks. Dehorah also approved an expenditure for Swan Flight Enterprises for $350. This company is owned by her ex-spouse.

NOTE 16 – FISCAL DISTRESS

At June 30, 2007 the School had ending net assets of ($3,410,420) the School's net assets were negative mainly due to the extent of outstanding debt ($2,512,246) and accrued liabilities related to the payroll and benefits ($474,857).

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 provided 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 listed on 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 $2,620,995. This amount is reflected as a liability on the financial statements. The School worked with the Ohio Department of Education to setup a payment plan to repay the findings over several years given the amount. As part of this payment plan, the School agreed to cease operations effective December 31, 2008.

NOTE 18 – SUBSEQUENT EVENTS

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.

At the December 12, 2008 Board meeting, the School 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 to continue to operate.

NOTE 19 – MATERIAL NONCOMPLIANCE

Contrary to Ohio Revised Code Section 3341.03(A)(8) and Ohio Administrative Code Section 117-2-02, the School did not maintain proper and sufficient accounting records and implement proper controls to reduce the possibility of material misstatements caused by error or fraud.

Contrary to Exhibit 2 of the School's contract with the Sponsor, the School did not properly utilize expense request forms.

Ohio Revised Code Section 149.351 provides that no public record shall be removed, destroyed, mutilated, transferred or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commission provided for under Ohio Revised Code Sections 149.38 and 149.42. The School had several violations of this section.

Contrary to Ohio Revised Code Section 3314.03(D), there was no evidence that the sponsor properly monitored the activity of the School.

Ohio Revised Code Section 3314.03(A)(10) provides that all community school classroom teachers are to be licensed in accordance with Ohio 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. The School did no consistently employ properly licensed teachers.

Contrary to Ohio Administrative Code Section 117-6-07(B), the School's Treasurer was not bonded.

The School was out of compliance with 2CFR Part 225, Appendix A, Section A.2, OHB Circular No. A-133, Section .105, and OHB Circular No. A-133, Section .300(a), by not segregating their federal funds, maintaining a listing of federal expenditures, not reporting all activity on the Federal Schedule, and not implementing sufficient controls over their federal programs.

Contrary to 7CFR 245.6 Title I, Section 1115 of ESEA, the School did not maintain support for their verification process.

Contrary to Title I, Section 1115 of ESEA, 2CFR Part 225 Appendix A, Section C1j, 2 CFR Part 225 Appendix B Section 8a, and 2CFR Part 225, Appendix B Section 26C, the School did not maintain support for salary and benefit expenses to document they were for qualified individuals.

NOTE 19 – MATERIAL NONCOMPLIANCE (continued)

Under 34 C.F.R. Section 80.30(c)(1), except as stated in other regulations or an award document, grantees or subgrantees shall obtain the prior approval of the awarding agency whenever any significant changes are anticipated under a nonconstruction award. Contrary to the requirement in this section, the School's Consolidated Final Expenditure Report for all of its grants did not reconcile to the accounting system used to prepare the annual financial statements.

Contrary to 2CFR Part 225, Appendix A, Section C(1)(j), the School had unallowable costs for the 21st Century Grant Program.

The School did not properly account for capital assets as required by 2CFR Section 215.34(f).

The School did not comply with procurement, suspension and debarment, maintenance, and level of effort requirements.

NOTE 20 – FINANCIAL MANAGEMENT

Robert Steigerwald served as School Treasurer from July 1, 2006 through November 15, 2006. Michael Ashmore served as School Treasurer from December 22, 2006 through June 30, 2007.

Deborah Brock-Blanks served as Project Manager for the 21st Century federal grant program. All other federal grants were managed by the Finance Department.

HARMONY COMMUNITY SCHOOL
HAMILTON COUNTY

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2007

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
U.S. DEPARTMENT OF AGRICULTURE				
Passed Through Ohio Department of Education:				
Child Nutrition Cluster				
School Breakfast Program	05-PU	10.553	$24,243	$24,243
National School Lunch Program	LL-P4	10.555	71,082	71,082
Total Child Nutrition Cluster			95,325	95,325
Total U.S. Department of Agriculture			**95,325**	**95,325**
U.S. DEPARTMENT OF EDUCATION				
Passed Through Ohio Department of Education:				
Special Education Cluster:				
Special Education Grants to States (Title VI-B)	6B-SF	84.027	125,080	125,080
Total Special Education Cluster			125,080	125,080
Grants to Local Educational Agencies (Title I)	C1-S1	84.010	291,098	291,098
Safe and Drug Free Schools	DR-S1	84.186	4,655	4,655
21st Century Grant	T1-S1	84.287	274,769	299,748
Title VI -- Innovative Education Program Strategies	C2-S1	84.298	1,306	1,306
Title II-D - Technology Literacy Challenge Fund Grants	TJ-S1	84.318	3,028	3,028
Improving Teacher Quality	TR-S1	84.367	16,725	16,725
Total U.S. Department of Education			**716,661**	**741,640**
Totals			**$811,986**	**$836,965**

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

NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2007

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.

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 have audited the financial statements of the business-type activities of Harmony Community School, Hamilton County, Ohio (the School), as of and for the year ended June 30, 2007, which comprise the School's basic financial statements. We have issued our report thereon dated September 21, 2009, wherein we noted the School has a negative net asset balance of ($3,410,420) as of June 30, 2007, was placed on probation by its sponsor, Buckeye Community Hope Foundation, and ceased operations on December 31, 2008. We also noted that the School has unpaid audit fees totaling $118,410 as of the date of this report. 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. Except as noted, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified 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 2007-009 through 2007-013 and 2007-016 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 2007-009, 2007-010, 2007-013, and 2007-016 are also material weaknesses.

We also noted certain internal control matters that we reported to the School's management in a separate letter dated September 21, 2009.

Compliance and Other Matters

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed 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 2007-001 through 2007-008, 2007-010, 2007-011, 2007-014, 2007-015, and 2007-017 through 2007-019.

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 September 21, 2009.

The School's responses to the findings identified in our audit 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, the Community School's sponsor, and federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 21, 2009

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, 2007. 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 2007-020 and 2007-022 through 2007-026 in the accompanying schedule of findings and questioned costs, the School did not comply with requirements regarding Activities Allowed, Allowable Costs/Cost Principles, Reporting, Cash Management, Equipment and Real Property Management, Maintenance and Level of Effort, Period of Availability, and Procurement and Suspension and Debarment that are applicable to its 21st Century and Title I Grants. Compliance with these requirements is necessary, in our opinion for the School to comply with requirements applicable to those programs.

In our opinion, because of the effect of the noncompliance issues described in the preceding paragraph, the School did not comply, in all material respects, with the requirements referred to above that are applicable to its 21st Century and Title I major federal programs for the year ended June 30, 2007.

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 2007-021.

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 2007-020 through 2007-026 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 2007-020, 2007-021, 2007-023, 2007-024, and 2007-026 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

Mary Taylor, CPA
Auditor of State

September 21, 2009

HARMONY COMMUNITY SCHOOL
HAMILTON COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	**Type of Financial Statement Opinion**	Qualified
(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 21st 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 2007-001

Finding for Recovery – Cable TV Payments for Apartment Building

State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951), provides that expenditures made by a governmental unit should serve a public purpose. Typically the determination of what constitutes a "proper public purpose" rests with the judgment of the governmental entity, unless such determination is arbitrary or unreasonable. Even if a purchase is reasonable, Ohio Attorney General Opinion 82-006 indicates that it must be memorialized by a duly enacted ordinance or resolution and may have a prospective effect only. Auditor of State Bulletin 2003-005 Expenditure of Public Funds/Proper "Public Purpose" states that governmental entities may not make expenditures of public monies unless they are for a valid public purpose. First, the expenditure is required for the general good of all inhabitants and second, the primary objective of the expenditure is to further a public purpose, even if an incidental private end is advanced.

The School paid $2,503.80 to Time Warner Cable for cable services for the student apartment building. Section four of the rental agreement between the students and the School, pertains to utilities and states that "the Lessor will pay for all water supplied to the premises, regular waste removal, gas, and electricity. Excessive meter readings (leaving heat/air conditioning on when unit is unoccupied), can result in the billing being sent to Lessee. Telephone services, cable television service, etc. are the responsibilities of the Lessee." The School provided an unsigned copy of the rental agreement but was unable to provide signed copies of the rental agreement between the School and students living in the apartment building. Additionally, the School was unable to provide evidence that the payment of cable television was related to a proper public purpose or that the students reimbursed the School for cable services.

The following payments were issued to Time Warner Cable related to cable services for the apartment building:

Check #:	Date:	Amount:	Signed by:
13608	07/10/2006	$831.60	Deland McCullough Robert Steigerwald
13761	08/07/2006	831.60	Deland McCullough Joan Barlage
14022	09/18/2006	840.60	Deland McCullough Joan Barlage

In accordance with the foregoing facts and pursuant to Ohio Revised Code § 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Deland McCullough, Executive Director, in the amount of $2,503.80 in favor of the Harmony Community School's General Fund.

Additionally, under Ohio law, any public official who either authorized an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is liable for the amount of such expenditure. Seward v. National Surety Co. (1929), 120 Ohio St. 47; 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex.rel. Village of Linndale v. Masten (1985), 18 Ohio St.3d 228. Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen. Public officials will be liable if and to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property. 1980 Op. Att'y Gen. No. 80-074. Therefore the following are jointly and severally liable for approving the payments: Joan Barlage, Board President, in the amount of $1,672.20, and Robert Steigerwald in the amount of $831.60, to the extent that recovery or restitution is not obtained from Deland McCullough.

FINDING NUMBER 2007-001
(Continued)

Officials' Responses:

Executive Director:

Harmony Community School entered an agreement to purchase the apartment building on Greenland Place (eventually called Harmony Pavilion) in 2005 to house adult aged students. These students all signed rental agreements which were put in their student file. As validation of the agreements existence, representatives from the Ohio Department of Education reviewed them on at least three occasions. The review of these signed agreements and other documents actually led to ODE confirming Harmony Pavilion students Ohio residency. The rental agreement provided to ODE was one of many versions Harmony used during the time the apartments were utilized.

As it relates to individual units paying separately for cable service, this practice never happened. The reason being that the complex was under a building service where every apartment had cable under a building rate. This format would not allow for an individual apartments cable service to be turned off anyway. Furthermore, Harmony determined very early in this process that the amount that tenants paid for rent would pay the cable as it also covered utilities, meals, building upkeep, etc. Cable came out to less than $23 per apartment. Considering that most apartments housed 2-4 tenants that paid rent on a per person (not per room) rate, it was deemed practical that the cable could just be part of the overall rent collected from 2-4 people per room.

Therefore, there was no separate tracking of cable in that collected rents encompassed cable and the all aforementioned items. This rent was collected from the tenants via cash, money order and check. The total monthly rents were ultimately submitted in full to the school treasurer via the Executive Director and the school enrollment clerk. The proper coding, delineation, depositing, and overall accounting practices related to these funds were the responsibility of the treasurer (Robert Steigerwald) as the school fiscal officer.

See also Officials' Response Section after finding 2007-026.

Auditor of State Conclusion:

Harmony provided several rental agreements none of which were dated or signed.

FINDING NUMBER 2007-002

Finding for Recovery – Payment of Expenditures Without Evidence of Proper Public Purpose

Ohio Revised Code, Section 149.351, states, in part, that "all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions."

The School issued the check noted below. The School provided no invoice or receipt to support this payment. This check was pre-authorized by Deborah Brock-Blanks, 21st Century Grant Manager; however, there was no documentation that it related to a school purpose and was for a proper public purpose.

FINDING NUMBER 2007-002
(Continued)

Check #:	Date:	Amount:	Vendor:	Signed by:
15491	05/01/2007	318.11	Walmart	Pre-authorized payment initiated by Deborah Brock-Blanks

The failure to maintain adequate support for expenditures could result in a loss of accountability over the School's finances, making it difficult to identify errors which could go undetected, and possibly result in expenditures that are not for a proper public purpose.

Additionally, under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is liable for the amount of such expenditure. Seward v. National Surety Co. (1929), 120 Ohio St. 47; 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex.rel. Village of Linndale v. Masten (1985), 18 Ohio St.3d 228. Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property. 1980 Op. Att'y Gen. No. 80-074.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Deborah Brock-Blanks, 21st Century Grant Manager in the amount of $318.11 and in favor of the Harmony Community School's General Fund.

See Officials' Response Section after finding 2007-026.

FINDING NUMBER 2007-003

Finding for Recovery – Overpayment to Pirate's Cove Graphics

The School issued check #13997 on September 13, 2006 to Pirate's Cove Graphics for $312.50. On December 6, 2006, the School issued a second check, #14533 to Pirate's Cove Graphics for $312.50. Both checks had the same invoice attached to them. The School did not receive a refund from Pirate's Cove Graphics for this overpayment. The second check was signed by the School's Executive Director and Board President.

State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951), provides that expenditures made by a governmental unit should serve a public purpose. Typically the determination of what constitutes a "proper public purpose" rests with the judgment of the governmental entity, unless such determination is arbitrary or unreasonable. Even if a purchase is reasonable, Ohio Attorney General Opinion 82-006 indicates that it must be memorialized by a duly enacted ordinance or resolution and may have a prospective effect only. Auditor of State Bulletin 2003-005 Expenditure of Public Funds/Proper "Public Purpose" states that governmental entities may not make expenditures of public monies unless they are for a valid public purpose. First, the expenditure is required for the general good of all inhabitants and second, the primary objective of the expenditure is to further a public purpose, even if an incidental private end is advanced.

In accordance with the foregoing facts and pursuant to Ohio Revised Code § 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Pirate's Cove Graphics in the amount of $312.50 in favor of the Harmony Community School's General Fund.

FINDING NUMBER 2007-003
(Continued)

Additionally, under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is liable for the amount of such expenditure. Seward v. National Surety Co. (1929), 120 Ohio St. 47; 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex.rel. Village of Linndale v. Masten (1985), 18 Ohio St.3d 228. Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property. 1980 Op. Att'y Gen. No. 80-074.

Therefore, the following are jointly and severally liable for approving the payments: Joan Barlage, Board President, and Deland McCullough, Executive Director, in the amount of $312.50 in favor of the Harmony Community School's General Fund to the extent that recovery or restitution is not obtained from Pirate's Cove Graphics.

See Officials' Response Section after finding 2007-026.

FINDING NUMBER 2007-004

Finding for Recovery – Funds not Deposited

The School collected revenues of $768.05 for food service and shirt sales on October 26, 2006. School records indicate that $186.40 was disbursed for cooking supplies and food for the football team. The difference of $581.65 was collected for deposit according to a deposit sheet prepared by Jeff Engel, former Financial Consultant. However, a review of school records reveals that this amount was not deposited. The finance department was responsible for the deposit of monies collected.

In accordance with the foregoing facts, and pursuant to the ORC § 117.28, a Finding for Recovery for public money collected, but not accounted for is hereby issued against Jeff Engel, former Financial Consultant, in the total amount of $581.65, in favor of the Harmony Community School's General Fund for $581.65.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is liable for the amount of the expenditure. Seward v. National Surety Corp., 120 Ohio St. 47 (1929); 1980 Op. Atty Gen. No. 80-074: Ohio Rev. Code Section 9.39; State, ex. Rel. Village of Linndale v. Masten, 18 Ohio St. 3d 228 (1985). Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property, 1980 OP. Atty Gen. No. 80-074.

Therefore, Robert Steigerwald, former Treasurer, shall be liable for such illegal expenditure to the extent that recovery or restitution is not obtained from Jeff Engle.

Officials' Response:

Director of Students:

It was the job of Mr. Jeff Engel to make these deposits. It was assumed that the typical transaction took place. It was not until Jeff Engel's departure that this deposit was found missing.

FINDING NUMBER 2007-005

Finding for Recovery – Overpayment to Jan Eggleston

The School paid Jan Eggleston for nine days at $197.01/day ($1,773.09). However, her timesheet indicated she was only entitled to be paid for eight days: three days worked and five days for Spring break, for a total of eight days at $197.01/day ($1,576.08). Therefore, the School overpaid Jan Eggleston by $197.01.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Jan Eggleston, in the amount of $197.01, and in favor of the Harmony Community School's General Fund, in the amount of $197.01.

See Officials' Response Section after finding 2007-026.

FINDING NUMBER 2007-006

Finding for Recovery - Payment of Expenditures Without Evidence of Proper Public Purpose

Ohio Revised Code, Section 149.351, states, in part, that "all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions."

The School issued checks as noted below. The School provided no invoices or receipts to support these payments which were reimbursements to Deborah Brock-Blanks. The Executive Director and Board President signed these checks for payment; however, there was no documentation that the payments were related to a school purpose and for proper public purposes.

Check #:	Date:	Payee:	Amount:	Signed by:
14567	12/07/2006	Deborah Brock-Blanks	$98.34	Deland McCullough Joan Barlage
14845	01/18/2007	Deborah Brock-Blanks	150.00	Deland McCullough Joan Barlage
14856	01/19/2007	Deborah Brock-Blanks	400.00	Deland McCullough Joan Barlage
14899	02/01/2007	Deborah Brock-Blanks	50.00	Deland McCullough Joan Barlage
15229	03/15/2007	Deborah Brock-Blanks	50.00	Deland McCullough Joan Barlage

The failure to maintain adequate support for expenditures could result in a loss of accountability over the School's finances, make it difficult to identify errors which could go undetected, and possibly result in expenditures that are not for a proper public purpose.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Deborah Brock-Blanks, in the total amount of $748.34, and in favor of the Harmony Community School's General Fund, in the amount of $748.34.

FINDING NUMBER 2007-006
(Continued)

Additionally, under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is liable for the amount of such expenditure. Seward v. National Surety Co. (1929), 120 Ohio St. 47; 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex.rel. Village of Linndale v. Masten (1985), 18 Ohio St.3d 228. Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property. 1980 Op. Att'y Gen. No. 80-074.

Therefore, the following shall be liable for such illegal expenditures to the extent that recovery or restitution is not obtained from Deborah Brock-Blanks: Joan Barlage and Deland McCullough in the amount of $748.34.

See Officials' Response Section after finding 2007-026.

FINDING NUMBER 2007-007

Finding for Recovery – Overpayment to Vivian Pogue

The School issued check #13548 on July 3, 2006 to Vivian Pogue. The School paid Vivian Pogue for 36 hours at $15/hour ($540.00). However, her timesheets indicated she was only entitled to payment for 30 hours at $15/hour ($450.00). Therefore, the School overpaid Vivian Pogue by $90.00.

The School issued check #13646 on July 18, 2006 to Vivian Pogue. The School paid Vivian Pogue for 31.25 hours at $15/hour ($468.75). However, her timesheet indicated she was only entitled to payment for 25.25 hours at $15/hour ($378.75). The School overpaid Vivian Pogue by $90.00.

Deborah Brock-Blanks signed the timecards indicating her review and approval. The School Executive Director and Treasurer signed these checks.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Vivian Pogue, in the amount of $180, and in favor of the Harmony Community School's General Fund, in the amount of $180.00.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is liable for the amount of such expenditure. Seward v. National Surety Co. (1929), 120 Ohio St. 47; 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex.rel. Village of Linndale v. Masten (1985), 18 Ohio St.3d 228. Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property. 1980 Op. Att'y Gen. No. 80-074.

Therefore, Deborah Brock-Blanks and Deland McCullough, Executive Director shall be liable for such illegal expenditures to the extent that recovery or restitution is not obtained from Vivian Pogue, in the amount of $180.

See Officials' Response Section after finding 2007-026.

FINDING NUMBER 2007-008

Finding for Recovery – Overpayment to Tanquray Dale

The School issued check #14602 on December 11, 2006 to Tanquray Dale. Her timesheet indicated Tanquray Dale was entitled to payment for 7.5 hours at $18/hour ($135.00). Instead, the School paid Tanquray Dale $315.00, resulting in an overpayment of $180.00.

Deborah Brock-Blanks signed the timecard indicating her review and approval. The School Executive Director and Board President signed this check.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Tanquray Dale, in the amount of $180.00, and in favor of the Harmony Community School's General Fund, in the amount of $180.00.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is liable for the amount of such expenditure. Seward v. National Surety Co. (1929), 120 Ohio St. 47; 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex.rel. Village of Linndale v. Masten (1985), 18 Ohio St.3d 228. Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property. 1980 Op. Att'y Gen. No. 80-074.

Therefore, Deborah Brock-Blanks, Deland McCullough, Executive Director, and Joan Barlage, Board President, shall be liable for such illegal expenditures to the extent that recovery or restitution is not obtained from Tanquray Dale, in the amount of $180.

See Officials' Response Section after finding 2007-026.

FINDING NUMBER 2007-009

Material Weakness – Payroll Processing

Through March 2007, the School had delegated payroll processing and reporting, which was a significant accounting function, to a third-party administrator. The School did not established procedures to determine whether the service organization had sufficient controls in place and operating effectively to reduce the risk that payroll disbursements were not completely and accurately processed in accordance with the hours worked, withholding percentages, and pay rates submitted.

After March 2007, the School delegated payroll processing and reporting to a separate third-party administrator, Paychex. The School did not have controls in place to ensure that instructions and information provided to Paychex was in accordance with provisions of applicable School agreements or documents between Paychex and the School. The School also did not have controls in place to ensure that the payroll check date was later than, or the same as, the payroll processing date. The following weaknesses were noted:

We recommend the School implement procedures to assure the completeness and accuracy of the payroll transactions processed by its third-party administrator, and proper reporting. The school should implement the following controls.

- activity is authorized, complete, and accurate;
- erroneous input data is corrected and resubmitted;

**FINDING NUMBER 2007-009
(Continued)**

- school personnel will review the payroll output for completeness and accuracy;
- payroll output is routinely reconciled to respective school control totals;
- payroll requests and bank transfers are appropriately authorized;
- all access to payroll information will be restricted, properly authorized and reviewed on a periodic basis;

As an alternative, the School could specify in their contract with the third-party administrator that an annual Tier II SAS 70 audit report be performed. The School should be provided a copy of the SAS 70 report timely and the School should review the report's content. A SAS 70 audit report should be conducted in accordance with American Institute of Certified Public Accountants' (AICPA) standards by a firm registered and considered in good standing with the Accountancy Board of the respective State. An unqualified Tier II SAS 70 Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness in accordance with SAS No. 70, should provide the school with an appropriate level of assurance that payroll transactions are being processed in conformance with the hours worked, withholding percentages, and pay rates submitted.

When designing the public office's system of internal control and the specific control activities, management should ensure that all transactions are properly authorized in accordance with management's policies and ensure adequate security of assets and records, and performing analytical procedures to determine the reasonableness of financial data.

As noted above, the School lacks management oversight in the posting of payroll activity. This lack of oversight is illustrated by the following:

- During the audit period, the School gave the service organization processing payroll unrestricted access to the School's bank account to transfer monies from the School to the company's account to process direct deposit transactions, collect their processing fee, and remit payroll withholdings.

  This practice increases the risk of undetected errors, theft, or fraud. The School should limit access to their bank accounts and electronic fund transfers to those authorized signatories within management of the School. An alternative method could be a notification to the School by the accounting firm of the amount needed to cover the payroll amount, and a transfer made by an authorized signatory to the payroll account.
- Twenty one employees were issued a 1099 in addition to a W-2 to report their normal compensation earned. The School did not provide a W-2 or 1099 for two employees. All wage amounts should have been included on W-2 forms, and federal taxes should have been withheld by Harmony for the services performed.
- Harmony did not use employment contracts for the 2006-2007 school year so the School could not verify which individuals should have been issued a W-2 as an employee and which should have been issued a 1099 as an independent contractor. The Board minutes also failed to identify which individuals were hired as employees or independent contractors.
- We were unable to determine if 17 employees were paid the correct amount because the gross amount paid did not agree to the salary notice on file (two) or a salary notice could not be located (15). Many salary notices on file were dated prior to fiscal year 2007. Salary changes were not approved in the minutes. Per Harmony's contract with the sponsor and Board approved policies, the Executive Director authorized rates of compensation rather than the Board. However, salary notices for employees tested were not always signed by the Executive Director.

FINDING NUMBER 2007-009
(Continued)

- David Braukman, Superintendent, signed his wife's, Melanie Braukman's, time sheet.
- Of the personnel files tested: 15% of files did not contain a W-4 form; 89% did not contain a state tax withholding form, 23% did not contain a retirement form; and 58% did not contain a job application.
- There were 13 instances in which timesheets/invoices related to the 21st Century grant were not calculated properly or did not contain adequate information to determine if they were calculated properly.

The lack of management oversight over the transactions processed by the service organization as well as the lack of oversight over the items noted above could result in a material misstatement to the financial statements.

Monitoring controls should be put into place to help assure that the work performed meets the School's objectives and is accurate. In addition to implementing controls over the service organization noted above, the following procedures should be implemented:

- The School should approve all salary changes in the minutes. All salary change documentation should be in the employee's personnel file.
- The School should implement procedures to document a person's current employment status either through employment contract or a Board approved resolution, and communicate this information and all changes to the accounting firm in a timely manner.
- W-2 forms and 1099's should be reviewed by the School subsequent to preparation for accuracy and completeness.
- Someone, other than Mr. Braukman, should approve his wife's timesheet.
- The School should maintain all pertinent personnel documents, such as payroll deductions and retirement forms in each employee's personnel file.

See Officials' Response Section after finding 2007-026.

FINDING NUMBER 2007-010

Material Weakness/Noncompliance Citation – Bank Reconciliations

Ohio Revised Code, Section 3314.03(A)(8), provides that a contract entered into between a sponsor and the governing authority of a community school shall require financial records of the school to be maintained in the same manner as are financial records of school districts.

Ohio Administrative Code, Section 117-2-02(A), states all public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets and liabilities, document compliance with finance-related legal and contractual requirements and prepare financial statements required by rule 117-2-03 of the Administrative Code.

Harmony did not properly reconcile its general checking account during the audit period. The reconciled bank balance was $15,157 higher than the general ledger balance at June 30, 2007.

FINDING NUMBER 2007-010
(Continued)

Failure to accurately prepare and reconcile the accounting records reduces the accountability over school funds and reduces the Board's ability to monitor financial activity, increases the likelihood that monies will be misappropriated and not detected, and increases the likelihood that the financial statements will be misstated. Reconciliations are an effective tool to help management determine the completeness of recorded transactions, as well, as ensure that all recorded transactions have been deposited with the financial institution.

We recommend that the Treasurer perform reconciliations between the bank balance and computer generated general ledger balance monthly. The reconciled checking account balance (bank balance, less outstanding checks, plus deposits in transit) should equal the total fund balance. Any variances

should be immediately investigated and justified. We also recommend that a board member review and sign off on the reconciliation thereby indicating approval and assist in the timeliness of reconciliations.

See Officials' Response Section after finding 2007-026.

FINDING NUMBER 2007-011

Significant Deficiency/Noncompliance Citation

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, Ohio Administrative Code Sections 117-2-02(D) and (E) states all local public offices may maintain accounting records in a manual or computerized format. The records used should be based on the nature of operations and services the public office provides, and should consider the degree of automation and other factors. Such records should include capital asset records including such information as the original cost, acquisition date, voucher number, the asset type (land, building, vehicle, etc.), asset description, location, and tag number. Local governments preparing financial statements using generally accepted accounting principles will want to maintain additional data. Fixed assets are tangible assets that normally do not change form with use and should be distinguished from repair parts and supply items.

The School lacks management oversight over their capital asset records. This lack of oversight is illustrated by the following:

- The School has not developed and implemented procedures to assist in recording assets as additions (which purchased) and deletions (when disposed of) throughout the fiscal year. Also, procedures have not been implemented to perform periodic physical inventories of assets to ensure completeness.
- The breakdown between furniture, fixtures, and equipment and vehicles was not correct.
- The School did not recognize the sale of the fixed asset. It was posted as miscellaneous revenue for $11,000.
- Depreciation was misstated by $4,378 for equipment and by $4,785 for vehicles.
- According to the School's Fixed Asset Policy, all fixed assets should be depreciated over five years or more. Numerous assets on their fixed asset listing had asset lives of less than five years.

**FINDING NUMBER 2007-011
(Continued)**

- In addition, the notes to the financial statements did not agree with the School's policy.

Failure to maintain records or employ adequate controls over the acquisition and disposal of fixed assets could result in misappropriation of assets and misstatements of recorded assets.

Monitoring controls should be put into place to help assure that capital asset records are accurate. The following procedures should be implemented:

- A listing of all fixed assets owned by the School should be maintained and updated to reflect additions of assets acquired and deletions of assets sold or disposed of throughout the year. To promote adequate safeguards over their fixed assets, and to reduce the risk that the School's fixed assets will be misstated, the School should prepare an updated listing of all fixed assets owned and develop and implement appropriate procedures to be performed throughout the year.

  These procedures should include tagging all assets meeting the School's capitalization criteria when received and recording the fixed asset tag number, the development of addition and disposal forms to be completed by the School and approved by management when assets are acquired or disposed recording such information as the tag number, a description, the cost, the acquisition date, reference for supporting documentation such as an invoice and proper approval.

- The School should also develop and implement procedures for performing periodic (eg. annual) physical inventories. The physical inventory lists can be performed by submitting a list of all fixed assets recorded to each location and having individuals responsible for that location perform the inventory of all assets in that location. The assets in the location should be compared to the list provided. Assets no longer used should be disposed, and assets not included on the listing should be added.

See Officials' Response Section after finding 2007-026.

FINDING NUMBER 2007-012

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.

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

- Accrued wages and benefits were calculated incorrectly. While testing accrued wages and benefits, we noted Intergovernmental Payable related to accrued wages were also calculated incorrectly. These miscalculations resulted in Accrued Wages being understated by $14,496 and Intergovernmental Payable being understated by $1,586.

- The School did not include seven items totaling $73,617 in their Accounts Payable account that should be included in the account.

- The School failed to report their liability to the Ohio Department of Job and Family Services of $170,593 on their financial statements.

FINDING NUMBER 2007-012
(Continued)

The School made an adjustments to the accompanying financial statements for the above items. Failure to properly post liabilities can result in inaccurate financial statements. We recommend the School properly post liabilities. The School should review activity posted to the financial statements for accuracy. Comparisons between years may aid in the proper posting of activity. To improve accountability and record keeping, we recommend that the School use due care in preparing their financial statements.

See Officials' Response Section after finding 2007-026.

FINDING NUMBER 2007-013

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 receipts. This lack of oversight is illustrated by the following:

- School Foundation was overstated by $13,714.
- Poverty Based Aid was overstated by $68,331.
- Special Education was overstated by $6,758.
- Parity Aid was overstated by $1,736.
- Federal and State Grants was understated by $430,469.
- Miscellaneous Revenue was overstated by $60,201.
- Fringe Benefits was understated by $379,730.
- A duplicate receipt book was not maintained for student fees, field trip/event monies, fundraiser monies, rental income, and other miscellaneous receipts.
- No records were presented other than a system generated receipts ledger, which lacked sufficient detail regarding the type of receipts being recorded for student fees, field trip/event monies, fundraiser monies, rental income, and other miscellaneous receipts. Support was not maintained for 14/37 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.

FINDING NUMBER 2007-013
(Continued)

- The School failed to maintain support for rental income receipts of approximately $1,296 to $2,400 monthly. A review of the DASL system indicated that 8 students were residing in the apartment building for 2007. The rent per the agreement was $162 per month and the rent per an interview with the Executive Director was $300 per month. During an interview with the Executive Director, he indicated that rent was tracked via an Excel spreadsheet; however, this information was not provided for audit.We recommend the School maintain all support for rental income.

Because of the lack of documentation provided for receipts we were unable to gain any assurances of accuracy and completeness over the miscellaneous receipts described above that were recorded by the School. These conditions and the lack of management oversight greatly increase the risk of misappropriation of cash receipts. We recommend the School utilize pre-numbered duplicate receipts and maintain support and bank deposit slips for all over-the-counter receipts.

We recommend the School utilize pre-numbered duplicate receipts and maintain support and bank deposit slips for all over-the-counter receipts. To improve record keeping and accountability of receipts we recommend that all state and federal revenue receipts be posted properly.

See Officials' Response Section after finding 2007-026.

FINDING NUMBER 2007-014

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. 53 out of the 62 transactions tested (85%) had no expense request forms. Also, three had no date on either invoice or form. Therefore, 56 out of the 62 transactions tested (90%) were not encumbered properly.

Without having expense request forms, we could not determine if Harmony Community School encumbered properly. Failure to properly certify the availability of funds 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.

Officials' Response:

We did not receive a response to the finding above.

FINDING NUMBER 2007-015

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:

FINDING NUMBER 2007-015
(Continued)

Date	*Check #*	*Vendor*	*Amount*
12/06/2006	14521	Francis L. Dean	$989.00
07/10/2006	13596	Aramark	25,863.23
08/07/2006	13747	Aramark	17,828.95
09/18/2006	14023	Duke Energy	9,493.73
01/02/2007	14683	Duke Energy	3,007.15
08/24/2006	13849	Ryan's Steakhouse	400.00
08/24/2006	13850	Ryan's Steakhouse	400.00

- The Executive Director said rental income was tracked on an Excel spreadsheet which was not provided for audit.

- We were not provided a Treasurer's contract for Robert Steigerwald for the audit period.

- The School did not maintain support for 14/37 (38%) 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.

Failure to maintain supporting documentation can result in incorrect posting of financial activity. We recommend that the School keeps all records.

See Officials' Response Section after finding 2007-026.

FINDING NUMBER 2007-016

Material Weakness

Requiring depositories to provide as security an amount equal to the funds on deposit in excess of FDIC coverage is a strong control to protect School assets. Such security may consist of federal deposit insurance, surety company bonds, or pledged securities among others.

The School's deposits were not adequately covered by collateral at all times during the audit period. During the audit period deposits exceeded legal security (FDIC) by up to $158,329. Failure to maintain proper security of deposits could result in a loss of funds.

The notes to the financial statements were adjusted to indicate that deposits were uncollateralized.

We recommend the School obtain insurance or a security agreement with their financial institution to provide as security an amount equal to the funds on deposit at all times.

See Officials' Response Section after finding 2007-026.

FINDING NUMBER 2007-017

Noncompliance Citation

Ohio Revised Code Section 3314.03 (D) states the contract shall specify the duties of the sponsor which shall be in accordance with the written agreement entered into with the department of education under division (B) of section 3314.015 of the Revised Code and shall include the following:

(1) Monitor the community school's compliance with all laws applicable to the school and with the terms of the contract;

(2) Monitor and evaluate the academic and fiscal performance and the organization and operation of the community school on at least an annual basis;

(3) Report on an annual basis the results of the evaluation conducted under division (D)(2) of this section to the department of education and to the parents of students enrolled in the community school;

(4) Provide technical assistance to the community school in complying with laws applicable to the school and terms of the contract;

(5) Take steps to intervene in the school's operation to correct problems in the school's overall performance, declare the school to be on probationary status pursuant to section 3314.073 of the Revised Code, suspend the operation of the school pursuant to section 3314.072 of the Revised Code, or terminate the contract of the school pursuant to section 3314.07 of the Revised Code as determined necessary by the sponsor;

(6) Have in place a plan of action to be undertaken in the event the community school experiences financial difficulties or closes prior to the end of a school year.

There is no evidence Buckeye Community Hope Foundation properly monitored the activity of the School. We recommend the sponsor monitors the activity of the School and maintain documentation of their review.

Officials' Response:

We did not receive a response from Officials for the finding above.

FINDING NUMBER 2007-018

Noncompliance Citation

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

For 10 of 30 teachers and teacher's aides tested, or 33%, no license or permit could be provided for audit.

FINDING NUMBER 2007-018

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.

Officials' Response:

We did not receive a response from Officials to the finding above.

FINDING NUMBER 2007-019

Noncompliance Citation

Ohio Administrative Code, § 117-6-07(B), requires a community school fiscal officer to execute a bond prior to entering upon the duties of the fiscal officer as provided for in Ohio Rev. Code § 3314.011. The governing authority prescribes the bond amount and surety by resolution. The School could not provide proof that the Treasurer was bonded.

Treasurer (Robert Steigerwald) submitted a bond to the School. However, the bond submitted to the school failed to contain a bond number. The bonding companies listed on the bond have no record of any bond being issued to Robert Steigerwald.

In addition, the School could not provide proof that Treasurer, Michael Ashmore was bonded for the audit period. Michael Ashmore served as Treasurer from December 22, 2006 through June 30, 2007.

Failure to obtain the proper bond could result in possible loss of funds if fraud or misappropriation of assets would occur. We recommend the School implement procedures to ensure that fiscal officers are properly bonded.

Officials' Responses:

Director of Students:

As stated above, Mr. Robert Steigerwald used the initials, CPA after his name. After his leaving Harmony, it was discovered that Mr. Steigerwald not only falsified the fact that he was a CPA (this was reported to the CPA Board) but had also falsified his own Bond. When asked, Mr. Michael Ashmore did respond that he was bonded. He is a full-time Treasurer for Batavia Local Schools and at least one other Charter School, as well.

Auditor of State Conclusion:

The School's human resource policies should include obtaining and verifying evidence related to professional credentials, bonds, etc. for all its credentialed employees, including employees asserting educational or fiscal certification. For example, the School should have obtained Mr. Steigerwald's CPA number, and/or verified the certification with the Ohio Accountancy Board. Similarly, the School should have contacted the bonding agency to verify that a bond was in place.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

FINDING NUMBER 2007-020

Noncompliance Citation / Material Weakness / Questioned Cost-Federal Schedule Reporting, Period of Availability and Allowable Costs/Cost Principles

Finding Number	2007-020
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 21st 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	2007
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) 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. Appendix A, Section C.1.j also provides that for a cost to be allowable, the expenditure must be adequately documented.

Furthermore, **OMB Circular No. A-133, Section .105** defines questioned costs as a cost that is questioned by the auditor because of an audit finding where the costs, at the time of the audit, are not supported by adequate documentation. OMB Circular No. A-133, Section .300 states that the auditee shall:

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

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

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

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

FINDING NUMBER 2007-020
(Continued)

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 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 $24,243 and National School Lunch revenues and expenditures of $71,082. We recommend the School include all federal receipts and expenditures on their Federal Schedule.
- The School overstated 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 2007-023.
- 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, 2007 as follows:

Title I	$291,098.60
Special Education Grants to States (IDEA B)	125,079.76
Safe and Drug Free Schools	4,655.18
Title VI-Innovative Education Program Strategies	1,305.83
Title II-D-Technology Literacy Challenge Fund	3,028.39
Improving Teacher Quality	16,724.84

- The School documented $309,113.04 in 21st Century grant funds were spent. However, per the Project Cash Request (PCR) and Final Expenditure Report (FER), the School only received and expended $299,478. The PCR summary and the FER agreed to the Federal Schedule.
- 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 2007-026.

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:

FINDING NUMBER 2007-020
(Continued)

- Of 86 expenditures, the 21st Century Project Manager did not sign seven expense request forms and 16 expense request forms were not located by the School. She approved seven timesheets of her children. She also approved six reimbursement expenses for herself. A total of 36 expense reports/timesheets not properly approved, or 42% 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. 15 out of 26 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.

See Officials' Response Section after finding 2007-026.

FINDING NUMBER 2007-021

Noncompliance Citation / Significant Deficiency - Eligibility

Finding Number	2007-021
CFDA Title and Number	10.553 National School Breakfast 10.555 National School Lunch
Federal Award Year	2007
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).

FINDING NUMBER 2007-021
(Continued)

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.

We could not determine which forms were selected for the verification. We recommend the School note which forms were selected for verification and maintain all support for 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.

Officials' Responses:

Director of Students:

Although this paperwork was distributed to our parents, unfortunately, it was difficult to collect all documentation from some of our families in a timely manner. Since our philosophy was to service students, we probably did serve meals to students without all proper paperwork.

FINDING NUMBER 2007-022

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

Finding Number	2007-022
CFDA Title and Number	84.010 Title I
Federal Award Year	2007
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

FINDING NUMBER 2007-022
(Continued)

Title I, Section 1115 of the Elementary and Secondary Education Act, (ESEA),(20 U.S.C. 6315), 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.

- 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.

- 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.

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

According to the Final Expenditure Report, during fiscal year 2007, the School paid salaries and benefits of $122,969.13 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 30 teachers tested, 10 were not properly licensed.

FINDING NUMBER 2007-022
(Continued)

Accordingly, a questioned cost is issued in the amount of $122,969.13 (part of questioned costs in Finding 2007-020) that the School expended on salaries and benefits for the Title I grant program during fiscal year 2007.

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.

See Officials' Response Section after finding 2007-026.

FINDING NUMBER 2007-023

Noncompliance Citation / Material Weakness / Questioned Cost - Reporting

Finding Number	2007-023
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 21st 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	2007
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 2007 Comprehensive Continuous Improvement Plan (CCIP) Application dated December 27, 2006, which include the following requirements:

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.

FINDING NUMBER 2007-023
(Continued)

In addition, the School expended more than ten percent (10%) over the budgeted amounts by object code as shown in the tables for which the School did not receive approval.

21st Century– CFDA #84.287	Budgeted Expenditures	Actual Expenditures per Expenditure Report	110% 0f Budgeted Amount	Amount Exceeding 10 % over Budgeted Amount
Capital Outlay	$0.00	$13,122.98	$0.00	$13,122.98
Salaries	122,000.00	188,310.94	134,200.00	54,110.94

Furthermore, as noted in Finding 2007-020, 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.

Based on the above deficiencies, we are questioning amounts equal to the Federal awards identified above which were received during the fiscal year ended June 30, 2007. In addition, failure to comply with grant requirements could result in future questioned costs and potential loss of federal financial assistance.

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 obtain prior approval from the Ohio Department of Education for all changes which exceed 10% of the budget. Furthermore, we recommend the School develop and maintain effective controls over all grant requirements.

See Officials’ Response Section after finding 2007-026.

FINDING NUMBER 2007-024

Noncompliance Citation / Material Weakness / Question Costs – Allowable Costs / Cost Principles

Finding Number	2007-024
CFDA Title and Number	84.287 21st Century Grant
Federal Award Year	2007
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. Appendix C, Section A.1 also provides 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 29 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 $11,070.17 as follows:

Check #:	Date:	Amount Questioned:	Vendor:	Description:
13548	07/03/2006	$90.00	Vivian Pogue	Overpayment of services.
13646	07/18/2006	90.00	Vivian Pogue	Overpayment of services.
13649	07/18/2006	150.00	National Underground Railroad	Field trip chaperones – no invoice
13735	08/02/2006	359.24	Sam's Club	Food and supplies.
13780	08/08/2006	467.00	Vera Pass	Closing ceremony cookout.
13936	09/01/2006	134.44	Free Store Foodbank	Food.
13972	09/11/2006	644.92	Sam's Club	Food and supplies.
	09/11/2006	658.90	Emory University Jane Fonda	No invoice.
14004	09/15/2006	195.00	Ancestor Wisdom Spring	Workshop – no invoice.
14179	10/01/2006	90.00	Tyrone J. Hall Sr.	Workshop – overpayment.
14432	11/20/2006	270.00	Positive Approach LLC	No invoice.
14433	11/20/2006	350.00	Vernon Jackson	No invoice.
14567	12/07/2006	98.34	Deborah Brock Blanks	No invoice.
14602	12/11/2006	180.00	Tanquray Dale	Overpayment of services.
14845	01/18/2007	150.00	Deborah Brock Blanks	Phone charges – no invoice.
14856	01/19/2007	400.00	Deborah Brock Blanks	Theatre tickets – no invoice.
14904	02/01/2007	1,680.00	SANKOFA	No invoice.
14899	02/01/2007	50.00	Deborah Brock Blanks	Phone charges – no invoice.
14928	02/05/2007	731.25	Sam's Club	Food and supplies.
14930	02/05/2007	117.38	Home Depot	Kitchen cabinet doors.
15036	02/16/2007	240.00	Alisa Williams	Services not pertaining to grant.
15229	03/15/2007	25.00	Deborah Brock Blanks	Food.
15229	03/15/2007	50.00	Deborah Brock Blanks	Phone charges – no invoice.

FINDING NUMBER 2007-024
(Continued)

15228	03/15/2007	350.00	Swan Flight Enterprises	Kitchen cabinet repair.
15369	04/13/2007	1,056.25	Strike Force GCF	Karate services – no invoice.
15419	04/17/2007	601.50	Sam's Club	Food and supplies.
15426	04/19/2007	140.95	Popeyes	Class lunch.
15548	05/10/2007	700.00	Vera Pass	Closing ceremony cookout.
15550	05/10/2007	1,000.00	Candance Tubbs	Development sessions – no invoice.

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. The expenditures to Deborah Brock-Blanks above (Check #14567, 14845, 14856, 14899, and 15229) are noted in the Finding For Recovery (Finding Number 2007-006). The expenditures to Vivian Pogue above (Check #13548 and 13646) are noted in the Finding For Recovery (Finding Number 2007-007). The expenditure to Tanquray Dale above (Check #14602) is noted in the Finding For Recovery (Finding Number 2007-008).

The School used 21st Century grant funds totaling $13,122.98 to make lease payments on 2 vans that were not used exclusively for 21st Century activities. The School did not submit a Cost Allocation Plan for the van usage. Therefore, the lease payments are questioned cost. We recommend the School use capital assets acquired with 21st Century grant funds exclusively for 21st Century grant activities or submit a cost allocation plan.

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

See Officials' Response Section after finding 2007-026.

FINDING NUMBER 2007-025

Noncompliance Citation / Significant Deficiency – Equipment and Real Property Management

Finding Number	2007-025
CFDA Title and Number	84.287 21st Century Grant
Federal Award Year	2007
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

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; identification number; source of equipment, including award number; whether title vests with recipient or Federal government; acquisition date; 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.

FINDING NUMBER 2007-025
(Continued)

(4) A control system shall be in effect to insure adequate safeguards to prevent loss, damage, or theft of the equipment.

(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 $11,000 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.

See Officials' Response Section after finding 2007-026.

FINDING NUMBER 2007-026

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

Finding Number	2007-026
CFDA Title and Number	84.010 Title I
Federal Award Year	2006
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 80.36.

FINDING NUMBER 2007-026
(Continued)

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

20 USC 6321(b) states an LEA may use program funds only to supplement and, to the extent practical, increase the level of 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 2007-020, 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.

Officials' Responses:

The Director of Students provided for following response for Findings 2007-001, 2007-002, 2007-003, 2007-005, 2007-006, 2007-007, 2007-008, 2007-009, 2007-010, 2007-011, 2007-012, 2007-013, 2007-015, 2007-016, 2007-020, 2007-022, 2007-023, 2007-024, 2007-025, 2007-026, and 2007-027:
Harmony's hiring practice was to find teachers and staff who were excellent in their professional fields of study and who would support and promote the school's core philosophy and mission to educate our students and encourage and guide their families. Therefore, it was assumed that Treasurer Robert Steigerwald was a highly competent CPA. (Later, it was found that Mr. Steigerwald had falsified both his CPA claim and his bond.) Furthermore, it was discovered after Mr. Steigerwald's departure, that simple financial duties such as separating funds and reconciling bank statements were not even performed. Also, Mr. Jeff Engel had come highly recommended from our former Treasurer, Mr. Michael Engel, as our day-to-day finance office worker. With this assumption in mind and assurance from both Mr. Steigerwald and Mr. Engel that they would competently and honestly handle their duties as treasurer and financial support worker, and further, with occasional spot checks of their procedures, it was with confidence that all essential and substantiated paperwork could be produced to accompany the checks that were put forth to be signed.

Auditor of State Conclusion for Findings 2007-001, 2007-002, 2007-003, 2007-005, 2007-006, 2007-007, 2007-008, 2007-009, 2007-010, 2007-011, 2007-012, 2007-013, 2007-015, 2007-016, 2007-020, 2007-022, 2007-023, 2007-024, 2007-025, 2007-026, and 2007-027:

The School's human resource policies should include obtaining and verifying evidence related to professional credentials, bonds, etc. for all its credentialed employees, including employees asserting educational or fiscal certification. For example, the School should have obtained Mr. Steigerwald's CPA number, and/or verified the certification with the Ohio Accountancy Board.

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, 2007

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2006-001	Finding for recovery against Deland McCullough regarding utility payments.	No*	Not corrected – not repaid as of September 21, 2009.
2006-002	Finding for recovery against Deborah Brock-Blanks.	No*	Not corrected – not repaid as of September 21, 2009.
2006-003	Finding for recovery against the Woods Group.	No*	Not corrected – not repaid as of September 21, 2009.
2006-004	Payments for evening meals for students without evidence of proper public purpose.	No*	Corrected.
2006-005	Failure to implement controls over payroll processing by third-party administrator.	No*	Not corrected. Reissued as Finding 2007-009.
2006-006	Ohio Administrative Code, Section 117-2-02, failure to maintain adequate accounting records.	No*	Not corrected. Reissued as Finding 2007-010.
2006-007	Failure to development and implement procedures over capital asset records.	No*	Not corrected. Reissued as Finding 2007-011.
2006-008	Lack of management oversight over GAAP conversion process.	No*	Not corrected. Reissued as Finding 2007-012.
2006-009	Lack of management oversight in posting and collection of receipts.	No*	Not corrected. Reissued as Finding 2007-013.
2006-010	Lack of management oversight in posting of debt activity.	No*	Partially corrected. Reissued as management letter comment.
2006-011	Failure to complete and approve expense request forms.	No*	Not corrected. Reissued as Finding 2007-014.

* The periods ending June 30, 2006 and June 30, 2007 were audited concurrently.

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2006-012	Ohio Revised Code, Section 149.351(A), failure to maintain records.	No*	Not corrected. Reissued as Finding 2007-015.
2006-013	Failure to maintain adequate collateral for deposits.	No*	Not corrected. Reissued as Finding 2007-016.
2006-014	Ohio Revised Code, Section 3314.03(D), failure of sponsor to monitor activity.	No*	Not corrected. Reissued as Finding 2007-017.
2006-015	Ohio Revised Code, Section 3314.03(A)(10), failure to employ licensed teachers.	No*	Not corrected. Reissued as Finding 2007-018.
2006-016	Ohio Administrative Code, Section 117-6-07(B), failure to have bonded Treasurer.	No*	Not corrected. Reissued as Finding 2007-019.
2006-017	-2 CFR Part 225, Appendix A, Section A.2; -A-133, Section .105; -A-133, Section .300(a): failure to segregate federal funds, provide support for expenditures, implement controls over federal grants.	No*	Not corrected. Reissued as Finding 2007-020.
2006-018	7 CFR 245.6, failure to maintain free and reduced price lunch income determination forms.	No*	Not corrected. Reissued as Finding 2007-021.
2006-019	Title I, Section 1115, failure to maintain free and reduced price lunch income determination forms.	Yes	

* The periods ending June 30, 2006 and June 30, 2007 were audited concurrently.

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2006-020	-Title I, Section 1115; -2 CFR Part 225, Appendix A, Section C1j; -2 CFR Part 225, Appendix B, section 8a; -2 CFR Part 225, Appendix B, Section 26c: failure to maintain support for amounts reported as salary and benefits for Title I grant.	No*	Not corrected. Reissued as Finding 2007-022.
2006-021	34 CFR Section 80.30(c)(1), failure to limit expenditures to budgeted amounts.	No*	Not corrected. Reissued as Finding 2007-023.
2006-022	2 CFR Part 225, questioned costs for 21st Century Grant.	No*	Not corrected. Reissued as Finding 2007-024.
2006-023	2 CFR Section 215.34(f), failure to maintain list of capital asset additions for 21st Century grant.	No*	Not corrected. Reissued as Finding 2007-025.
2006-024	Failure to comply with Procurement and Suspension and Debarment; Maintenance and Level of Effort.	No*	Not corrected. Reissued as Finding 2007-026.

* The periods ending June 30, 2006 and June 30, 2007 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
NOVEMBER 12, 2009

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