HARMONY COMMUNITY - CINCINNATI, INC.
HAMILTON COUNTY

REGULAR AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2000

JIM PETRO
AUDITOR OF STATE
STATE OF OHIO

HARMONY COMMUNITY - CINCINNATI, INC.
HAMILTON COUNTY

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INDEPENDENT ACCOUNTANTS' REPORT

Harmony Community - Cincinnati, Inc.
Hamilton County
7030 Reading Road
Suite 350
Cincinnati, Ohio 45237

To the Management Cabinet:

We have audited the accompanying Balance Sheet of Harmony Community - Cincinnati, Inc., Hamilton County, Ohio (the School), as of June 30, 2000, and the related Statement of Revenues, Expenses, and Changes in Retained Earnings, and the Statement of Cash Flows for the year then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In May 2000, the Department of Education completed a comprehensive full-time equivalency enrollment audit and determined the school was overpaid by $174,650 in fiscal year 1999. As a result, the amount was withheld in the subsequent fiscal year. The School has included this amount as a receivable and revenue in the accompanying financial statements. In our opinion, the recognition of revenue for this disputed receivable does not conform with generally accepted accounting principles. Intergovernmental revenue, intergovernmental receivables, operating income and retained earnings are overstated by $174,650.

In our opinion, because of the effect of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with generally accepted accounting principles, the financial position of Harmony Community - Cincinnati, Inc., Hamilton County, Ohio, as of June 30, 2000, or the results of its operations or its cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2000, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Jim Petro
Auditor of State

December 14, 2000

HARMONY COMMUNITY - CINCINNATI, INC.
HAMILTON COUNTY

BALANCE SHEET
AS OF JUNE 30, 2000

Assets	
Current Assets	
Cash and Cash Equivalents	$200,195
Intergovermental Receivable	486,942
Accounts Receivable	3,470
Total Current Assets	690,607
Noncurrent Assets:	
Furniture and Equipment Net of accumulated depreciation	370,182
Total Assets	$1,060,789
Liabilities and Fund Equity	
Current Liabilities	
Accounts Payable	$167,063
Accrued Wages and Benefits	261,829
Intergovernmental Payable	12,677
Loan Payable	91,012
Total Current Liabilities	532,582
Total Liabilities	$532,582
Fund Equity	
Retained Earnings:	
Unreserved	528,207
Total Liabilities and Fund Equity	$1,060,789

The accompanying notes to the financial statements are an integral part of this statement.

HARMONY COMMUNITY - CINCINNATI, INC.
HAMILTON COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS FOR THE FISCAL YEAR ENDED JUNE 30, 2000

Operating Revenues	
Foundation Payments	$1,772,891
Disadvantaged Pupil Impact Aid	14,589
State Special Education Program	687,729
Other Operating Revenue	13,627
Total Operating Revenues	2,488,836
Operating Expenses	
Salaries	1,411,966
Fringe Benefits	315,805
Purchased Services	356,435
Materials and Supplies	139,993
Depreciation	91,287
Other Operating Expenses	114,149
Total Operating Expenses	2,429,635
Operating Income	59,201
Non-Operating Revenues	
Other State Grants	5,000
Interest Income	8,063
Total Non-Operating Revenues	13,063
Net Income	72,264
Retained Earnings at Beginning of Year	455,943
Retained Earnings at End of Year	$528,207

The accompanying notes to the financial statements are an integral part of this statement.

HARMONY COMMUNITY - CINCINNATI, INC.
HAMILTON COUNTY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from State of Ohio	$1,988,267
Cash Payments to Employees for Services	(1,489,842)
Cash Payments to Suppliers for Goods and Services	(623,705)
Other Operating Revenue	10,157
Net Cash Used by Operating Activities	(115,123)
Cash Flows from Noncapital Financing Activities	
State and Federal Grants Received	5,000
Net Cash Provided by Noncapital Financing Activities	5,000
Cash Flows from Capital and Related Financing Activities	
Acquisition of Capital Assets	(170,201)
Repayment of Loan	(96,729)
Net Cash Used for Capital and Related Financing Activities	(266,930)
Cash Flows from Investing Activities	
Cash Received from Interest Revenue	8,063
Net Cash Provided from Investing Activities	8,063
Net Increase (Decrease) in Cash and Cash Equivalents	(368,990)
Cash and Cash Equivalents at Beginning of Year	569,185
Cash and Cash Equivalents at End of Year	$200,195
Reconciliation of Operating Income to Net Cash Used for Operating Activities	
Operating Income	$59,201
Adjustments To Reconcile Operating Income to Net Cash (Used) for Operating Activities	
Depreciation	91,287
Changes in Assets and Liabilities	
(Increase) in Accounts Receivable	(3,470)
(Increase) in Intergovernmental Receivable	(486,942)
Increase in Accounts Payable	21,857
(Decrease) in Intergovernmental Payable	(11,866)
Increase in Accrued Wages	214,810
Total Adjustments	(174,324)
Net Cash Used by Operating Activities	($115,123)

The accompanying notes to the financial statements are an integral part of this statement.

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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Harmony Community – Cincinnati, Inc. (the School) is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to provide an appropriate educational facility and program for all age groups and to provide instruction in courses which meet 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's management is not aware of any course of action or series of events that have occurred that might adversely affect the School's exempt status. 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, Harmony School – Cincinnati, Inc. on June 9,1998 for a three year contract. The State Board of Education approved the proposal and entered into a contract with the Management Cabinet of the School. By-Laws of the Corporation were amended to allow for the creation of the Management Cabinet of Harmony Community School. Members of the Cabinet were appointed by the Corporate Board of Directors. The contract provided for the commencement of School operations on September 16, 1998.

The fiscal operations of the School are under a seven-member Management Cabinet which is directed by the Chief Financial Officer. This Cabinet is responsible for formulating policies regarding fiscal operations and monitoring the expenditure of funds. The Chief Financial Officer of the School directs the financial affairs of the School including accounting, purchasing, insurance, housekeeping, and maintenance and is responsiblefor reporting the progress of the School against those responsibilities. Additionally, an Accountability Cabinet monitors and reports academic progress.

The reporting entity is composed of the primary government. The primary government of the School consists of all funds, departments, boards, and agencies that are not legally separate from the School. For Harmony Community – Cincinnati, Inc., this includes Harmony Community School.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Harmony Community – Cincinnati, Inc. 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, provided they do not conflict with or contradict GASB pronouncements. The more significant of the School's accounting policies are described below.

A. Basis Of Presentation

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basics of Accounting

The accounting and financial reporting treatment is determined by its 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 balance sheet. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The accrual basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor does prescribe a budgetary process for the School.

D. Cash and Cash Equivalents

All monies received by the School are accounted for by the School's Chief Financial Officer. For cash management, all cash received by the chief financial officer is pooled in an interest bearing central bank account. Total cash for the School is presented as "cash and cash equivalents" on the accompanying balance sheet.

The school had no investments during the fiscal year.

E. Fixed Assets and Depreciation

Fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value as of the dates received. The School maintains a capitalization threshold of two hundred dollars. The School does not possess any infrastructure.

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

F. Intergovernmental Revenues

The School currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact (DPIA) Program.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues received from these programs are recognized as operating revenues in the accounting period in which they are earned and become measurable.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which they are earned and become measurable.

G. Accrued Liabilities

Obligations, such as accrued wages and benefits, are reported as liabilities in the accompanying financial statements.

3. CASH AND DEPOSITS

At June 30, 2000, the school had a cash balance of $200,195, which is presented as a cash and cash equivalent in the accompanying financial statements. The bank balance of the School's deposits was $203,607 of which $103,256 was covered through federal depository insurance (FDIC) and $100,351 is uninsured and uncollateralized.

4. RECEIVABLES

Receivables at June 30, 2000 consisted principally of intergovernmental receivables ($486,942). All but $174,650 was subsequently collected. The amount not collected is in dispute with the Ohio Department of Education. See Note 15 for details of the dispute.

5. FIXED ASSETS

A summary of the Enterprise Fund fixed assets at June 30, 2000:

Computer Hardware	$ 164,860
Computer Software	89,467
Furniture & Equipment	59,497
Leasehold Improvements	139,697
Textbooks	97,198
Subtotal	$ 550,719
Less: Accumulated Depreciation	(180,538)
Net Fixed Assets	$ 370,181

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. For fiscal year 2000, the School contracted with EMC Insurance Companies for property and general liability insurance. There is a $1,000 deductible with a one hundred percent blanket, all risk policy.

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.

7. OPERATING LEASE

The School has a twelve (12) month lease with Allen Temple Real Estate Foundation for 66,869 square feet of building space to be used for educational purposes. This lease is renewed on an annual basis. In fiscal year 2000, the School paid $10,243 per month, plus $297 per month for each child above a census of 300 students. At June 30, 2000, the School paid $114,859 in rent to Allen Temple Real Estate Foundation and had a payable of $66,825.

8. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required statements and required supplementary information for SERS. That report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, OH 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the School is required to contribute 14 percent; for fiscal year 2000, 5.5 percent was the portion to fund pension obligations. The contribution rates are established by SERS's Retirement Board within the rates allowed by State statute. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2000 and 1999 were $28,841, and $11,324 respectively; 57 percent has been contributed for fiscal year 2000 and 100 percent for fiscal year 1999. $12,504 represents the unpaid contributions for fiscal year 2000 and is recorded as a liability.

B. State Teachers Retirement System

The School contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivors, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, OH 43215-3771.

8. DEFINED BENEFIT PENSION PLANS (Continued)

Plan members are required to contribute 9.3 percent of their annual covered salary and the School is required to contribute 14 percent; 6 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School's required contributions for pension obligation to STRS for the fiscal years ended June 30, 2000 and 1999 were $40,073 and $22,535 respectively; 63 percent has been contributed for fiscal year 2000 and 100 percent for fiscal year 1999. $14,656 represents the unpaid contribution for fiscal year 2000 and is recorded as a liability.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teacher Retirement System. As of June 30, 2000, the School has no employees or members of the governing board who contribute to Social Security.

9. POSTEMPLOYMENT BENEFITS

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

For STRS, all benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The board currently allocates employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund from which payments for health care benefits are paid. For the School, this amount equaled $53,430 during the 2000 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 1999, (the latest information available) the balance in the Fund was $2,783 million. For the year ended June 30, 1999, net health care costs paid by STRS were $249,929,000, and STRS had 95,796 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 8.5 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, prorated for partial service credit.

9. POSTEMPLOYMENT BENEFITS (Continued)

For fiscal year 2000, the minimum pay has been established at $12,400. For the School, the amount to fund health care benefits, including surcharge, equaled $44,572 during the 2000 fiscal year. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 1999, (the latest information available), were $126,380,984 and the target level was $189.6 million. At June 30, 1999, SERS had net assets available for payment of health care benefits of $188.0 million. SERS has approximately 51,000 participants currently receiving health care benefits.

10. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining leave components are derived from school policies and State Laws. Full-time employees are eligible for fifteen days of paid vacation each year. Employees may not carry more than twenty-five days of accrued vacation at any one time. Unused vacation leave is not compensable upon termination.

B. Insurance Benefits

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

C. Employee Medical, Dental, and Vision Benefits

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

11. DEBT

During fiscal year 1999, the Treasurer entered into a loan with Firstar Bank with a limit of $275,000 at an interest rate of 7 percent. As of June 30, 2000, $237,916 was borrowed against the limit. The Agreement allows the school to purchase or lease equipment and make payments to the bank in monthly installments.

As of June 30, 2000, $146,900 was paid in principal. The following is a summary of the District's future annual debt payments:

Fiscal Year Ending June 30	Principal	Interest	Total
2001	$91,016	$ 2,866	$93,882
	======	======	======

The debt is not evidenced by notes, but will be exhausted prior to fiscal year end based upon the current payment schedule. State law requires that debt be evidenced by notes that mature at fiscal year end.

12. STATE SCHOOL FUNDING DECISION

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's school foundation program which provides significant amounts of monetary support to the School. During the fiscal year ended June 30, 2000, the School District received $1,598,241 of school foundation support for its operations.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the Ohio General Assembly in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State has appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court.

On May 11, 2000, the Ohio Supreme Court rendered an opinion on this issue. The Court concluded, "…the mandate of the [Ohio] Constitution has not been fulfilled.' The Court's majority recognized efforts by the Ohio General Assembly taken in response to the Court's March 24, 1997, decision, however, it found seven "…major areas warrant further attention, study, and development by the General Assembly…", including the State's reliance on local property tax funding, the state's basic aid formula, the school foundation program, as discussed above, the mechanism for, and adequacy of, funding for school facilities, and the existence of the State's School Solvency Assistance Fund, which the Court found took the place of the unconstitutional emergency school loan assistance program.

The Court decided to maintain jurisdiction over these issues and continued the case at least until June 15, 2001.

As of the date of these financial statements, the School is unable to determine what effect, if any, this ongoing litigation will have on its future State funding under this program and on its financial operations.

13. RELATED PARTIES

During fiscal year 2000, the husband of a cabinet member of the School was the Director of Harmony Community – Cincinnati, Inc. This Cabinet member was also employed by the School. Salaries for the Director and his wife were $75,000 and $57,000, respectively.

14. PURCHASED SERVICES

Purchased Services were composed of Utilities ($81,051), Building and Equipment Leases ($194,966), Legal and Accounting ($62,188), and Student Testing ($18,230).

15. SUBSEQUENT EVENTS

The Ohio Department of Education (Department) conducted an "enrollment audit" of the student full-time equivalency attendance for the fiscal year ended June 30, 1999. The Department determined that the School had been over-paid approximately $175,000 for foundation revenue, and deducted the overpayment from the Schools's fiscal year 2000 foundation revenue.

15. SUBSEQUENT EVENTS (Continued)

The School filed suit against the Department on December 11, 2000. The suit asserts that the Ohio Department of Education improperly conducted this audit because there is no statutory basis for such an audit to be performed. The School is requesting that the withheld amount be paid to the School.

STATE OF OHIO
OFFICE OF THE AUDITOR

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Harmony Community - Cincinnati, Inc.
Hamilton County
7030 Reading Road
Suite 350
Cincinnati, Ohio 45237

To the Management Cabinet:

We have audited the financial statements of Harmony Community - Cincinnati, Inc., Hamilton County, Ohio, (the School) as of and for the fiscal year ended June 30, 2000, and have issued our Adverse report thereon dated December 14, 2000 in which we have noted that the School's financial statements referred to above include an intergovernmental receivable that does not meet the revenue recognition criteria described by generally accepted accounting principles. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed three instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2000-10431-001 and 2000-10431-002.

We also noted certain immaterial instances of noncompliance that we have reported to the management of the School in a separate letter dated December 14, 2000.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings as items 2000-10431-003 and 2000-10431-004.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions described above are not material weaknesses.

We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the School in a separate letter dated December 14, 2000.

The Harmony Community - Cincinnati, Inc. has responded to issues discussed in the Schedule of Findings. A copy of their response may be obtained from Robert Witt, Treasurer at (513) 351-2539. This report is intended for the information and use of management and the Management Cabinet and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

December 14, 2000

SCHEDULE OF FINDINGS
JUNE 30, 2000

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

FINDING NUMBER 2000-10431-001

Finding for Recovery

Jody Smith was paid to deliver and install thirty computers ($737.50 per computer) to Harmony Community School in August 2000. Mr. Smith delivered and installed only ten of the computers ordered, but he was paid in full for all thirty computers.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code, Section 117.28, a Finding for Recovery in favor of Harmony Community School in the amount of $14,750, for the illegal expenditure of public monies, is hereby issued against Jody Smith.

FINDING NUMBER 2000-10431-002

Finding for Recovery

Cliff Fennell was an employee at Harmony Community School during fiscal year 2000. His employment date was September 13, 1999. Mr. Fennell was paid from August 14, 1999 to September 12, 1999; this was before his employment date. He was also paid twice for the pay period September 13, 1999 to September 30, 1999. The following is a schedule of what he was paid:

Paid by the School for the period August 14, 1999 to September 30, 1999:	$3,750.00
Paid by Paychex (payroll service company) for the period September 13, 1999 to September 30, 1999:	1,846.15
Total amount paid to Mr Fennell from August 14, 1999 to September 30, 1999:	5,596.15
Less: amount Mr. Fennell should have been paid for September 13, 1999 to September 30, 1999: (13 days * 123.076 daily rate)	(1,599.99)
Amount Mr. Fennell was overpaid:	$3,996.16

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code, Section 117.28, a Finding for Recovery in favor of Harmony Community School in the amount of $3,996.16, for the illegal expenditure of public monies, is hereby issued against Cliff Fennell.

FINDING NUMBER 2000-10431-003

Reportable Condition

Payroll Processing Procedures

The following control weaknesses were noted in the system for processing payroll:

- None of the employees were approved for hire through the Management Cabinet, nor was the established pay rate for the positions approved.
- Four time sheets from five pay periods scanned were not approved.
- There were errors in the calculation of the hours worked on the time sheets.
- Payroll Worksheets showing the authorized pay rate was not always approved and not always in the employee's file.
- Records were not maintained by the Treasurer indicating leave accruals or leave time taken during the fiscal year.

These weaknesses could result in an overpayment, or unauthorized payment relating to payroll expenditures to occur because employees could be paid for time they are not authorized to work.

The following procedures should be applied to help establish a favorable control environment and to aid in identifying misstatements either as they occur or through the review process:

- Approval through the Management Cabinet to hire all employees of the School;
- Approval through the Management Cabinet of all pay rates;
- Payroll Worksheets should be approved by the Director;
- Time sheets be recalculated and approved by the employee's Supervisor; and
- Maintain records for employees showing leave accrued and leave used and documentation that the records are reviewed by the Director.

FINDING NUMBER 2000-10431-004

Reportable Condition

Disbursement Procedures

One of the School's controls for the disbursement cycle is to have a receiving report or the invoice signed indicating that the goods or services have been received before payment is made. Six of the ten invoices tested were not marked received. We were informed that all of the goods for one of the invoices had not been received. This resulted in a finding for recovery in favor of the School. Marking of invoices is a control established by the School to determine invoices are reviewed and all items are received. We recommend the school review invoices when received and state they are ready for payment when all goods or services are received.

STATE OF OHIO
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HARMONY COMMUNITY - CINCINNATI, INC

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
JANUARY 30, 2001