P.A.C.E. HIGH SCHOOL
HAMILTON COUNTY

JUNE 30, 2007

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

VonLehman
CPA & ADVISORY FIRM

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Mary Taylor, CPA
Auditor of State

Board of Trustees
P.A.C.E. High School
1601 California Avenue
Cincinnati, Ohio 45237

We have reviewed the *Independent Auditors' Report* of P.A.C.E. High School, Hamilton County, prepared by VonLehman and Company, Inc., for the audit period July 1, 2006 through June 30, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. P.A.C.E. High School is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

October 18, 2010

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P.A.C.E. HIGH SCHOOL
HAMILTON COUNTY
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VonLehman
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INDEPENDENT AUDITORS' REPORT

State Committee for School District Audits
P.A.C.E. High School
Hamilton County

We have audited the accompanying financial statements of P.A.C.E. High School, Hamilton County, as of and for the year ended June 30, 2007, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of P.A.C.E. High 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 U.S. 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, and the audit requirements included as an appendix to the state audit contract. 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 our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of P.A.C.E. High School, Hamilton County, as of June 30, 2007, and the respective changes in financial position and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 14, 2010, on our consideration of the P.A.C.E. High School, Hamilton County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis information on pages 1 through 3 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise P.A.C.E. High School's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, is fairly sated in all material respects in relation to the basic financial statements taken as a whole.

VonLehman & Company Inc.

Fort Mitchell, Kentucky
July 14, 2010

P.A.C.E. HIGH SCHOOL
HAMILTON COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED

The discussion and analysis of the P.A.C.E. High 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 statements and notes to the basic financial statements to enhance their understanding of the School's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments issued June, 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

- Total assets decreased approximately $393,000 from June 30, 2006 to June 30, 2007. The decrease was due primarily to decreased funding provided by the state. Net assets at June 30, 2007 were ($137,881).

- Total assets were $198,488 at June 30, 2007. Cash comprised approximately 29% of this amount.

- Liabilities were $336,369 at June 30, 2007. This balance mainly represents liabilities due to employees for wages and benefits. Liabilities increased by approximately $116,000, which was due to the timing of payments. At June 30, 2007, there was approximately $98,000 in accounts payable whereas at June 30, 2006, there was no accounts payable balance.

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.

The Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets, answers the question, "How did we do financially during 2007?"

Statement of Net Assets

The Statement of Net Assets 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 years 2007 and 2006:

Table 1
Net Assets

	2007	2006
Assets		
Current Assets	$ 77,841	$ 591,154
Other Assets	120,647	-
Total Assets	198,488	591,154
Liabilities		
Current Liabilities	336,369	220,383
Total Liabilities	336,369	220,383
Net Assets		
Unrestricted	(137,881)	370,771
Total Net Assets	$ (137,881)	$ 370,771

Table 2 shows the changes in net assets for fiscal years 2007 and 2006 as well as a listing of revenues and expenses.

Table 2
Change in Net Assets

	2007	2006
Operating Revenues		
Foundation Payments	$ 1,763,850	$ 2,239,515
Disadvantaged Pupil Impact Aid	-	66,241
State Special Education	232,775	175,076
Non-Operating Revenues		
Federal and State Grants	547,690	401,702
Miscellaneous Income	4,266	54,359
Total Revenues	2,548,581	2,936,893
Operating Expenses		
Salaries	1,470,588	1,368,920
Fringe Benefits	442,446	322,388
Purchased Services	886,545	775,977
Materials and Supplies	164,756	116,184
Other Expenses	92,778	59,661
Capital Outlay	120	-
Total Expenses	3,057,233	2,643,130
Change in Net Assets	$ (508,652)	$ 293,763

P.A.C.E. had a budget of $3,350,000 in revenue for FY 2007. The School made 76% of the revenue budget in FY 2007.

The budget for expenses was approximately $2,823,000 for FY 2007. Actual expenditures exceeded budgeted expenses by approximately $234,000 due to higher than budgeted salaries and fringe benefits as there were additional special education and support staff employees hired during the year ended June 30, 2007.

P.A.C.E. HIGH SCHOOL
HAMILTON COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)

Capital Assets

At the end of the fiscal year 2007, the School had a total of $103,980 in capital assets, net of accumulated depreciation. Table 3 is a summary of changes in the School's capital assets from fiscal year 2006 to fiscal year 2007.

Table 3
Capital Assets

	June 30, 2006	Additions	Deletions	June 30, 2007
Computers	$ -	$ 112,525	$ -	$ 112,525
Less Accumulated Depreciation	-	8,545	-	8,545
Capital Assets, Net	$ -	$ 103,980	$ -	$ 103,980

Major capital additions for fiscal year 2007 include the purchase of computers in the amount of $112,525.

Current Financial Issues

The P.A.C.E. High School was formed in 2005. During the 2006-2007 school year, there was an average of 320 students enrolled in the School. The School receives its finances mostly from state aid. Per pupil aid for fiscal year 2007 amounted to $7,964 per student. The average number of years experience for teachers was 6 years.

Contacting the School's Financial Management

This financial report is designed to provide our constituents with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional information, contact Stephanie Millard, Treasurer, at 3015 Clifton Avenue, Cincinnati, Ohio 45220 or e-mail at stephanie.millard@zoomtown.com.

P.A.C.E. HIGH SCHOOL
HAMILTON COUNTY
STATEMENT OF NET ASSETS
June 30, 2007

Assets		
Current Assets		
Cash	$	56,901
Prepaid Items		20,940
Total Current Assets		77,841
Noncurrent Assets		
Depreciable Capital Assets, Net		103,980
Deposit		16,667
		120,647
Total Noncurrent Assets		
Total Assets		198,488
Liabilities		
Current Liabilities		
Accounts Payable		98,479
Accrued Wages and Benefits		237,890
Total Liabilities		336,369
Net Assets		
Invested in Capital Assets, Net of Related Debt		103,980
Unrestricted		(241,861)
Total Net Assets	$	(137,881)

See accompanying notes.

P.A.C.E. HIGH SCHOOL
HAMILTON COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Year Ended June 30, 2007

Operating Revenues	
Foundation Payments	$ 1,763,850
State Special Education	232,775
Total Operating Revenues	1,996,625
Operating Expenses	
Salaries	1,470,588
Fringe Benefits	442,446
Purchased Services	886,545
Materials and Supplies	164,756
Other Operating Expenses	92,778
Capital Outlay	120
Total Operating Expenses	3,057,233
Operating Loss	(1,060,608)
Non-Operating Revenues (Expenses)	
Other Federal and State Grants	547,690
Miscellaneous Income	4,266
Total Non-Operating Revenues (Expenses)	551,956
Change in Net Assets	(508,652)
Beginning Net Assets	370,771
Ending Net Assets	$ (137,881)

See accompanying notes.

P.A.C.E. HIGH SCHOOL
HAMILTON COUNTY
STATEMENT OF CASH FLOWS
Year Ended June 30, 2007

Cash Flows From Operating Activities		
Cash Received from		
State of Ohio	$	1,996,625
Cash Paid to/for		
Employees		(1,887,527)
Supplies		(164,756)
Other Activities		(898,811)
Net Cash Used by Operating Activities		(954,469)
Cash Flows from Noncapital Financing Activities		
Operating Grants Received		547,690
Miscellaneous Income		4,266
Net Cash Provided by Noncapital Financing Activities		551,956
Cash Flows from Capital Financing Activities		
Acquisition of Capital Assets		(112,525)
Net Change in Cash		(515,038)
Cash and Cash Equivalents July 1, 2006		571,939
Cash and Cash Equivalents June 30, 2007	$	56,901
Reconciliation of Operating Loss to Net Cash		
Provided by Operating Activities		
Operating Loss	$	(1,060,608)
Adjustments to Reconcile Operating Loss to Net Cash		
Provided by Operating Activities		
Depreciation Expense		8,545
Changes in Assets and Liabilities		
Decrease in Accounts Receivable		8,000
Increase in Prepaid Items		(9,725)
Increase in Deposit		(16,667)
Increase in Accounts Payable		98,479
Increase in Accrued Wages and Benefits		17,507
Net Cash Used by Operating Activities	$	(954,469)

See accompanying notes.

NOTE 1 – DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

P.A.C.E. High School, Hamilton County, Ohio (the School), is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students by utilizing an approved evaluation involving the community. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School.

The School was approved for operation under contract with the Lucas County Educational Service Center (the Sponsor) until June 30, 2007. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The School operates under the direction of a five-member Board of Trustees of which the majority must be community residents. The Board of Trustees is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board of Trustees controls the School's one instructional/support facility staffed by 22 non-certified employees and 14 certificated full time teaching personnel who provide services to 320 students.

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 after 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.

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.

Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the School finances and meets the cash flow needs of its enterprise activities.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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 community school's contract with its sponsor. The contract between the School and its Sponsor does prescribe an annual budget requirement in addition to preparing a five-year forecast, which is to be updated on an annual basis. The School follows a budget that is adopted and revised as needed.

Prepaid Items

Payments made to vendors or employees for services that will benefit periods beyond June 30, 2007, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

Capital Assets

All capital assets are capitalized at cost and updated for additions and retirements during the year. Depreciation is computed using the straight-line method over the estimated useful life of the capital asset. The School's capital assets consist solely of computers and related equipment which is being depreciated over three years.

Compensated Absences

The criteria for determining vacation, personal and sick leave components are derived from policies and procedures approved by the Board of Trustees. Non-certified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to non-certified employees upon termination of employment. Teachers and administrators who are not on a twelve month contract do not earn vacation time.

Teachers, administrators, and non-certified employees are allowed 15 sick days and 3 personal days per year; any unused sick or personal leave is not accumulated.

Insurance Benefits

The School provides life, medical/surgical and dental benefits to most employees through Humana.

Net Assets

Net assets represent the difference between assets and liabilities. The School has no debt.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the School, these revenues are primarily foundation payments from the state and sales for food service. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the School. Revenues and expenses not meeting this definition are reported as non-operating.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

The preparation of financial statements in conformity with U.S. 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

Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned. The School's policy with regard to custodial credit risk is as follows: The School must maintain deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the School places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the FDIC. The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legal constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

At June 30, 2007, the School's deposits were $56,901, and the bank balances were $89,210. Of the bank balance, up to $100,000 is covered by federal depository insurance and the excess, if any, is insured by collateralized securities held by the pledging institution's trust department in the School's name.

NOTE 4 – CAPITAL ASSETS

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

	Balance June 30, 2006	Additions	Deletions	Balance June 30, 2007
Business-Type Activity				
Capital Assets Being Depreciated				
Computers	$ -	$ 112,525	$ -	$ 112,525
Less Accumulated Depreciation				
Computers	-	8,545	-	8,545
Total Accumulated Depreciation	-	103,980	-	103,980
Total Capital Assets Being Depreciated, Net	-	103,980	-	103,980
Business-Type Activity, Capital Assets, Net	$ -	$ 103,980	$ -	$ 103,980

NOTE 5 – RISK MANAGEMENT

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 2007, the School contracted with Philadelphia Insurance Company for general liability, property, and for educational errors and omissions insurance. The policy's general aggregate, personal and advertising injury and each occurrence limit is $1,000,000 with a $5,000 deductible.

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 6 – DEFINED BENEFIT PENSION PLANS

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 financial report that includes financial statements and required supplementary information. The stand-alone 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 (800) 878-5853 or by visiting their website at www.ohsers.org.

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007 10.68% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006 and 2005 were $75,998, $55,977 and $42,928, respectively; 69% has been contributed for fiscal year 2007 and 100% for fiscal years 2006 and 2005. The unpaid contribution as of June 30, 2007, totaling $23,582 is recorded as a liability.

State Teachers Retirement System of Ohio

The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (888) 227-7877 or by visiting their website at www.strs.oh.org.

NOTE 6 – 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 % 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. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the members 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% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% 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 for the fiscal years ended June 30, 2007, 2006, and 2005 were $ 126,633, $104,704, and $62,857; 81% has been contributed for fiscal year 2007 and 100% for fiscal years 2006 and 2005. The unpaid contribution as of June 30, 2007, totaling $23,630 is recorded as a liability.

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2007, certain employees of the School have elected Social Security. The School's liability is 6.2 percent of wages paid.

NOTE 7 – POSTEMPLOYMENT BENEFITS

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (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 Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

STRS retirees who participate in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled $5,428 for fiscal year 2007.

NOTE 7 – POSTEMPLOYMENT BENEFITS (Continued)

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) the balance 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 premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007 employer contributions to fund health care benefits were 3.32% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at $35,800; however, the surcharge is capped at 2 percent of each employer's SERS salaries. For the fiscal year 2007 the School paid $18,022 to fund health care benefits, excluding the surcharge.

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% of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available), were $158,751,207 and the target level is 150% of next year's projected claims less premium contributions for the next fiscal year. At June 30, 2006, SERS had net assets available for payment of health care benefits of $295.6 million. SERS has approximately 59,492 participants currently receiving health care benefits.

NOTE 8 – CONTINGENCIES

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 are 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.

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.

Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001 alleging Ohio's Community (i.e., Charter) school's program violates the state Constitution and state laws. On April 21, 2003, the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed and the case was heard on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral argument occurred November 29, 2005. The effect of this suit, if any, on the School is not presently determinable.

NOTE 9 – OPERATING LEASES

The School leases land and a building from an unrelated entity. This lease started in January, 2007 and expires in December, 2011. For the first twelve months of the lease, the monthly lease payment is $9,000 per month. For the remaining forty-eight months of the lease, the monthly lease payment increases to $16,667 per month. Lease expense for the fiscal year ended June 30, 2007 was $54,000.

The School leased mobile trailers from an unrelated entity. This lease was terminated as of June 30, 2007. The base lease payments were $11,800 per month until December, 2006 and then were increased to $12,096 per month for the remaining six months of the lease. Rent expense for the year ended June 30, 2007 was $143,375.

The School also leases the grounds where the trailers are located from an unrelated entity. The lease payments are $18,000 per month until the lease expired in December, 2007. Rent expense for the year ended June 30, 2007 was $216,000.

The School has entered into a lease for the usage of land and a building from an unrelated entity which began in July, 2007. The base lease payments will be $10,833 per month for the first twelve months of the lease, $12,500 for the second twelve months, and $13,750 for the last twelve months of the lease. The School will be able to renew the lease for two periods of one year each at the conclusion of the initial lease term. The School also has the option to purchase the land and building during the lease for $1,250,000.

The School leased a copier through June 30, 2007. The base lease payment was $548 per month. Rent expense for the year ended June 30, 2007 was $6,576. Upon expiration of this lease, the School entered into a new lease for two copiers. This new lease will expire in June, 2010 and the base lease payment will be $900 per month.

The School also leases space as needed. Expense on these leases for the year ended June 30, 2007 was $6,550.

The minimum future lease payments under the above non-cancellable leases are as follows:

Years Ending June 30,	Facilities	Equipment	Total
2008	$ 392,000	$ 10,795	$ 402,795
2009	350,000	10,795	360,795
2010	365,000	10,795	375,795
2011	200,000	-	200,000
2012	100,000	-	100,000
Total	$ 1,407,000	$ 32,385	$ 1,439,385

NOTE 10 – PURCHASED SERVICES

For the year ended June 30, 2007, purchased service expenses were comprised of the following:

Accounting and Business Services	$ 19,219
Legal and Professional	42,259
Printing and Reproduction	11,821
Postage and Delivery	2,281
Bus Transportation	17,800
Building Operations	116,325
Rent	420,025
Communications	112,766
Other Purchased Services	144,049
Total	$ 886,545

SUPPLEMENTAL INFORMATION

P.A.C.E. HIGH SCHOOL, HAMILTON COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2007

Federal Grants/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass Through Grantors Number	Disbursement	
U.S. Department of Agriculture				
Passed through State Department of Education				
Child Nutrition Cluster				
National School Lunch Program	10.553	000481-05PU-2006	$ 553	(2)
National School Lunch Program	10.553	000481-05PU-2007	4,327	(2)
National School Breakfast Program	10.555	000481-LLP4-2006	1,051	(2)
National School Breakfast Program	10.555	000481-LLP4-2007	7,855	(2)
Total U.S. Department of Agriculture			$ 13,786	
U.S. Department of Education				
Passed through State Department of Education				
Title I Grants to Local Educational Agencies	84.010	000481-C1S1-2007	$ 88,336	(2)
Passed through State Department of Education				
Special Education Grants to States	84.027	000481-6BSF-2007	95,734	(2)
Safe and Drug Free Schools and Communities State Grants	84.186	000481-DRS1-2007	3,829	(2)
Charter Schools *	84.282	000481-CHS1-2007	300,000	(1)
State Grants for Innovative Programs	84.298	000481-C2S1-2007	821	(2)
Education Technology State Grants	84.318	000481-TJS1-2006	2,483	(2)
Education Technology State Grants	84.318	000481-TJS1-2007	919	(2)
Improving Teacher Quality Grants	84.367	000481-TRS1-2006	3,187	(2)
Improving Teacher Quality Grants	84.367	000481-TRS1-2007	4,713	(2)
Total U.S. Department of Education			$ 500,022	
Grand Totals			$ 513,808	

* Denotes Major Program

(1) Type A Program ($300,000 and greater)

(2) Type B Program (all others)

See auditors' report and accompanying notes.

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of P.A.C.E. High School and is presented on the basis of accounting described in Note 2 of the financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133*, Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

State Committee for School District Audits
P.A.C.E. High School
Hamilton County

We have audited the accompanying financial statements of P.A.C.E. High School, Hamilton County (the School) as of and for the year ended June 30, 2007, which collectively comprise P.A.C.E. High School, Hamilton County's basic financial statements, and have issued our report thereon dated July 14, 2010. We conducted our audit in accordance with U.S. 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.

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 auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the School's internal control over financial reporting. Accordingly, we do not express an opinion of 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 indentify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of 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 generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School's financial statements will not be prevented or detected by the School's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2007-01 and 2007-02 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School's internal control.

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 internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

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Compliance and Other Matters

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 grant agreements, 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the Ohio Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

VonLehman & Company Inc.

Fort Mitchell, Kentucky
July 14, 2010

VonLehman
CPA & ADVISORY FIRM

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

State Committee for School District Audits
P.A.C.E. High School
Hamilton County, Ohio

Compliance

We have audited the compliance of the P.A.C.E. High School with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. P.A.C.E. High School's major federal programs are identified in the summary of auditor's result section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Board's management. Our responsibility is to express an opinion of the Board's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; 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;* and the audit requirements included as an appendix to the state audit contract. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Board's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the P.A.C.E. High School's compliance with those requirements.

In our opinion, P.A.C.E. High School complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007. However, the results of our auditing procedures discussed instances of noncompliance with those requirement, which are required to be reported in accordance with OMB Circular A-133 and described in the accompanying schedule of findings and questioned cost as item 2007-03.

Internal Control Over Compliance

The management of P.A.C.E. High School, Hamilton County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the P.A.C.E. High School's internal control over compliance with requirements that could have a direct and material effect on 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 of the effectiveness of the School's internal control over compliance.

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A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Ohio Department of Education, the Ohio State Committee for School District Audits and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

VonLehman & Company Inc.

Fort Mitchell, Kentucky
July 14, 2010

P.A.C.E. HIGH SCHOOL, HAMILTON COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007

SECTION I – SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS	
Type of Financial Statement Opinion	Unqualified
Were there any material weaknesses reported at the financial statements level (GAGAS)?	No
Were there any control deficiencies identified, not considered to be material weaknesses, reported at the financial statement level (GAGAS)?	Yes
Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
FEDERAL AWARDS	
Were there any material weaknesses reported for major federal programs?	No
Were there any control deficiencies identified, not considered to be material weaknesses reported for major programs?	No
Type of Major Programs Compliance Opinion	Unqualified
Is there any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510?	Yes
Major Programs (list):	Charter Schools [CFDA 84.282]
Dollar Threshold: Type A/B Programs	Type A: > $300,000 Type B: > all others
Low Risk Auditee?	No

SECTION II – FINANCIAL STATEMENT FINDINGS

<u>Significant Deficiencies:</u>

<u>Finding Number 2007-1</u>

Due to the complex requirements of U.S. generally accepted accounting principles, management has requested that we prepare the School's financial statements including footnotes. Although we have prepared the financial statements, the financial statements still remain the responsibility of management. As such, the School has designated a competent employee to oversee our services and the School has made all management decisions. The School has reviewed and approved the financial statements and the related notes. Our firm has implemented the appropriate controls over the financial statement preparation, however, our controls cannot be considered as the School's internal controls. Accordingly, a significant deficiency in the School's internal control exists in regards to the financial statement preparation function.

<u>Management's Response</u>

Adjusting entries will be discussed with the auditor's office so that a consensus may be reached prior to the filing of the financial reports.

SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

Finding Number 2007-2

During our audit, we noted several adjusting journal entries that were required to be made to the financial statements in order for them to be in accordance with U.S. generally accepted accounting principles. A proper internal control system is necessary to ensure all journal entries are posted at the appropriate time. We noted the School does not have the necessary controls in place to ensue all accounts are adjusted to the proper balance on a timely basis. Accordingly, a significant deficiency in the School's internal control exists in regards to the recording of adjusting journal entries.

Management's Response

Adjusting entries will be discussed with the auditor's office so that a consensus may be reached prior to the filing of the financial reports.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding Number 2007-3

Data Collection Form

Circular A-133 paragraph 320a notes that audits are required to be submitted to the Federal Clearinghouse within the earlier of thirty days after receipt of the auditors' report or nine months after the end of the audit period. The final year 2007 audit was issued after March 31, 2008.

Management's Response

The auditor's office will begin performing the audits so that a more timely completion might occur.

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Mary Taylor, CPA
Auditor of State

P.A.C.E. HIGH 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 4, 2010

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