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

JUNE 30, 2008

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

VonLehman
CPA & ADVISORY FIRM

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Dave Yost • 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 the P.A.C.E. High School, Hamilton County, prepared by VonLehman and Company, Inc., for the audit period July 1, 2007 through June 30, 2008. 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. . In conjunction with the work performed by the Independent Public Accountant, the Auditor of State is issuing the following:

Finding for Recovery Repaid Under Audit

Ohio Rev. Code Section 3314.03(A)(6)(b) states that each contract entered into between a sponsor and the governing authority of a community school shall specify a requirement that the governing authority adopt an attendance policy that includes a procedure for automatically withdrawing a student from the school if the student, without a legitimate excuse, fails to participate in 105 consecutive hours of the learning opportunities offered to the student. Section 6.13 of the contract between the Lucas County Educational Service Center, the School's Sponsor, and P.A.C.E. High School (PACE) required the School's attendance policy to include procedures for automatic withdrawal if a student misses 105 consecutive hours of the learning opportunities.

Ohio Rev. Code Section 3314.17(C) states that each fiscal officer appointed under Section 3314.011 of the Revised Code is responsible for annually reporting the community school's data under Section 3301.0714 of the Revised Code. The Treasurer is responsible for ensuring the aforementioned student information was reported to the Ohio Department of Education's (ODE) Community School Average Daily Membership (CSADM) and Education Management Information System (EMIS) databases.

PACE had a student that was deceased as of September 10, 2007. The School Options Enrollment System (SOES), the ODE system that drives funding for schools, did not indicate this student was withdrawn upon the student's death. Also, the student files maintained by the School could not substantiate that the student was withdrawn as of the date of death. Per the Ohio Department of Education (ODE), student funding was provided to PACE for the entire fiscal year of 2008.

ODE provided calculations of the amount of overfunding provided to PACE assuming that the student attended from August 21, 2007, the first day of school that year, to September 7, 2007, the last day of the student's attendance at school. The calculations of this overpayment of funding as provided by ODE are detailed below:

PACE School year - 8/21/07 to 5/30/08 180 Days in Session - 6 Hours per Day 1,080 Total Hours Instruction	
Student Deceased - 9/10/07 Assumption: Attended 8/21/07 to 9/7/07 13 Days @ 6 hours per day = 78 Hours 78 hours attended / 1080 total hours = 0.07 FTE	
Based on 1.0 FTE:	
FY08 Formula Amt	**$5,565.00**
Building Blocks	**49.42**
Special Ed	**n/a**
Career Tech	**n/a**
PBA: Intervention Aid	**n/a**
PBA: Prof Develop	**14.73**
PBA: Dropout Recovery	**89.32**
PBA: Community Outreach	**89.32**
Parity Aid	**56.67**
Total Funding	**$5,864.46**
% to be recovered	**0.93**
Amount to be recovered	**$5,453.95**

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code, Section 117.28, a finding for recovery for public money illegally expended is hereby issued against PACE in the amount of $5,453 and in favor of the Ohio Department of Education.

The Ohio Department of Education informed us on February 3, 2011 that PACE had repaid the Ohio Department of Education $5,453.95.

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. The P.A.C.E. High School is responsible for compliance with these laws and regulations.

Dave Yost

Dave Yost
Auditor of State

February 8, 2011

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P.A.C.E. HIGH SCHOOL
HAMILTON COUNTY
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VonLehman
CPA & ADVISORY FIRM

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, 2008, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of P.A.C.E. High School, Hamilton County'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, 2008, 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 28, 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 4 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.

VonLehman & Company Inc.

Fort Mitchell, Kentucky
July 28, 2010

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
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, 2008. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial 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 $61,500 from June 30, 2007 to June 30, 2008. The decrease was due primarily to decreased funding provided by the state. Net assets at June 30, 2008 were $(509,480).

- Total assets were $136,984 at June 30, 2008. Cash comprised 30% of this amount.

- Liabilities were $646,464 at June 30, 2008. This balance represents liabilities due to employees for wages and benefits as well as debt incurred during the year. Liabilities increased by approximately $310,000, which was due to the debt incurred to help with operations.

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 2008?"

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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED
(Continued)

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

Table 1
Net Assets

	2008	2007
Assets		
Current Assets	$ 53,845	$ 77,841
Other Assets	83,139	120,647
Total Assets	136,984	198,488
Liabilities		
Current Liabilities	208,826	336,369
Long-Term Liabilities	437,638	-
Total Liabilities	646,464	336,369
Net Asset		
Unrestricted	(509,480)	(137,881)
Total Net Assets	$ (509,480)	$ (137,881)

Table 2 shows the changes in net assets for fiscal years 2008 and 2007 as well as a listing of revenues and expenses.

Table 2
Change in Net Assets

	2008	2007
Operating Revenues		
Foundation Payments	$ 2,189,061	$ 1,763,850
State Special Education	216,793	232,775
Non-Operating Revenues		
Federal and State Grants	270,254	547,690
Miscellaneous Income	11,556	4,266
Total Revenues	2,687,664	2,548,581
Operating Expenses		
Salaries	1,360,745	1,470,588
Fringe Benefits	438,782	442,446
Purchased Services	1,041,697	886,545
Materials and Supplies	84,019	164,756
Other Expenses	133,285	92,778
Capital Outlay	735	120
Total Expenses	3,059,263	3,057,233
Change in Net Assets	$ (371,599)	$ (508,652)

P.A.C.E. had a budget of $3,550,000 in revenue for FY 2008. The School made 76% of the revenue budget in FY 2008.

The budget for expenses was $2,996,000 for FY 2008. Actual expenditures exceeded budgeted expenses by approximately $63,000.

Capital Assets

At the end of the fiscal year 2008, the School had a total of $66,472 in capital assets, net of accumulated depreciation. Table 2 is a summary of changes in the School's capital assets from fiscal year 2007 to fiscal year 2008.

Table 3
Capital Assets

	June 30, 2007	Additions	Disposals	June 30, 2008
Computer	$ 112,525	$ -	$ -	$ 112,525
Less Accumulated Depreciation	8,545	37,508	-	46,053
Capital Assets, Net	$ 103,980	$ 37,508	$ -	$ 66,472

There were no major capital additions for fiscal year 2008.

Long-Term Debt

During the fiscal year ended June 30, 2008, the School entered into a note payable with the Superintendent. Table 4 summarizes the activity associated with this note.

Table 4
Note Payable

	June 30, 2007	Additions	Disposals	June 30, 2008
Note Payable – Related Party	$ -	$ 469,579	$ (31,941)	$ 437,638

Current Financial Issues

The P.A.C.E. High School was formed in 2005. During the 2007-2008 school year, there were approximately 379 students enrolled in the School. The School receives its finances mostly from state aid. Per pupil aid for fiscal year 2008 amounted to $7,091 per student. The average number of years experience for teachers was 4 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, 2008

Assets		
Current Assets		
Cash	$	41,146
Prepaid Items		12,699
Total Current Assets		53,845
Noncurrent Assets		
Depreciable Capital Assets, Net		66,472
Deposit		16,667
Total Noncurrent Assets		83,139
Total Assets		136,984
Liabilities		
Current Liabilities		
Accounts Payable		36,000
Accrued Wages and Benefits		172,826
Total Current Liabilities		208,826
Long-Term Note Payable		437,638
Total Liabilities		646,464
Net Assets		
Invested in Capital Assets, Net of Related Debt		66,472
Unrestricted		(575,952)
Total Net Assets	$	(509,480)

See accompanying notes.

P.A.C.E. HIGH SCHOOL
HAMILTON COUNTY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
Year Ended June 30, 2008

Operating Revenues		
Foundation Payments	$	2,189,061
State Special Education		216,793
Total Operating Revenues		2,405,854
Operating Expenses		
Salaries		1,360,745
Fringe Benefits		438,782
Purchased Services		1,041,697
Materials and Supplies		84,019
Other Operating Expenses		133,285
Capital Outlay		735
Total Operating Expenses		3,059,263
Operating Loss		(653,409)
Non-Operating Revenues (Expenses)		
Other Federal and State Grants		270,254
Miscellaneous Income		11,556
Interest Expense		-
Total Non-Operating Revenues (Expenses)		281,810
Change in Net Assets		(371,599)
Beginning Net Assets		(137,881)
Ending Net Assets	$	(509,480)

P.A.C.E. HIGH SCHOOL
HAMILTON COUNTY
STATEMENT OF CASH FLOWS
Year Ended June 30, 2008

Cash Flows From Operating Activities		
Cash Received From		
State of Ohio	$	2,405,854
Cash Paid to/for		
Employees		(1,864,591)
Supplies		(84,019)
Other Activities		(1,192,447)
Net Cash Flows From Operating Activities		(735,203)
Cash Flows From Noncapital Financing Activities		
Operating Grants Received		270,254
Miscellaneous Income		11,556
Net Cash Flows From Noncapital Financing Activities		281,810
Cash Flows From Capital and Related Financing Activities		
Proceeds From Capital Debt		469,579
Principal Paid on Capital Debt		(31,941)
Net Cash Provided by Capital and Related Financing Activities		437,638
Net Change in Cash		(15,755)
Cash and Cash Equivalents July 1, 2007		56,901
Cash and Cash Equivalents June 30, 2008	$	41,146

Reconciliation of Operating Loss to Net Cash		
Provided by Operating Activities		
Operating Loss	$	(653,409)
Adjustments to Reconcile Operating Loss to Net Cash		
Provided by Operating Activities		
Depreciation Expense		37,508
Changes in Assets and Liabilities		
Decrease in Prepaid Items		8,241
Decrease in Accounts Payable		(62,479)
Decrease in Accrued Wages and Benefits		(65,064)
Net Cash Used by Operating Activities	$	(735,203)

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, 2009. 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 25 non-certified employees and 11 certificated full time teaching personnel who provide services to 310 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, 2008, 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.

Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. The superintendent and treasurer earn twenty five days of vacation per year. Accumulated unused vacation is paid to classified employees, the superintendent and the treasurer upon termination of employment. Teachers do not earn vacation time.

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.

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.

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, 2008, the School's deposits were $41,146, and the bank balance was $70,145. Of the bank balance, $250,000 was 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, 2008:

	Balance June 30, 2007	Additions	Deletions	Balance June 30, 2008
Business-Type Activity				
Capital Assets Being Depreciated				
Computers	$ 112,525	$ -	$ -	$ 112,525
Less Accumulated Depreciation				
Computers	8,545	37,508	-	46,053
Total Accumulated Depreciation	103,980	37,508	-	66,472
Total Capital Assets Being Depreciated, Net	103,980	37,508	-	66,472
Business-Type Activity, Capital Assets, Net	$ 103,980	$ 37,508	$ -	$ 66,472

NOTE 5 – NOTE PAYABLE – RELATED PARTY

Note Payable – Related Party	$ -	$ 469,579	$ 31,941	$ 437,638

The School has an unsecured and non-interest bearing Note Payable to the Superintendent. As of June 30, 2008, there were no set payment terms. Payments are made based on available cash flows of the school.

NOTE 6 – 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 2008, 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 7 – DEFINED BENEFIT PENSION PLANS

School Employees Retirement System

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

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 2008, 9.82% percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were $80,718, $75,998 and $55,977 respectively. 100% has been contributed for fiscal years 2008, 2007 and 2006.

State Teachers Retirement System of Ohio

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad Street, Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, community school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state of any political subdivision thereof.

NOTE 7 – DEFINED BENEFIT PENSION PLANS (Continued)

New members have a choice of three retirement plans. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DB plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. 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.

DB Plan Benefits- Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit", the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total numbers of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation of every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits- Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. 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.

Combined Plan Benefits- Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or a equivalent lump-sum payment in addition to the original retirement allowance. Effective April 11, 2005, a reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3% of the original base amount for Defined Benefit Plan participants.

NOTE 7 – DEFINED BENEFIT PENSION PLANS (Continued)

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A Defined Benefit 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. A death benefit of $1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to $2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. 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.

For fiscal year 2008 plan members are required to contribute 10% of their annual covered salaries. The School District was required to contribute 14%; 13% was the portion used to fund pension obligations.

The School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007, and 2006 were $112,499, $126,633, and $104,704 respectively. 86% has been contributed for fiscal year 2008 and 100% for fiscal years 2007 and 2006. The unpaid contribution as of June 30, 2008, totaling $15,901, is recorded as liability.

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System of the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2008, certain employees of the School have elected Social Security. The School's liability is 6.2% of wages paid.

NOTE 8 – POSTEMPLOYMENT BENEFITS

School Employees Retirement System

The School District provides access to health care coverage to retirees who participated in the Defined Benefit or Combined Plans 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). Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute.

Ohio law authorizes STRS to offer a cost-sharing, multiple employer health care plan. STRS provides access to health care coverage to eligible retirees who participated in the defined benefit or combined plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Pursuant of the Revised Code, the State Teachers Retirement Board has discretionary authority over how much, if any, of the associated 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.

NOTE 8 – POSTEMPLOYMENT BENEFITS (Continued)

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. The 14% employer contribution rate is the maximum rate established under Ohio law. Of the 14% employer contribution rate, 4.18% of covered payroll was allocated to post-employment health care for the years ended June 30, 2008, 2007, and 2006. For the School District, this amount equaled $24,100 for fiscal year 2008.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2007 (the latest information available), the balance in the Fund was $4.1 billion. For the fiscal year ended June 30, 2007, net health care costs paid by STRS were $265,558,000 and STRS had 122,934 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. Effective January 1, 2004, 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. SERS administers two post-employment benefit plans.

<u>Medicare Part B Plan</u>

The Medicare B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code 3309.69. Qualified benefit recipients who pay Medicare Part B premiums many apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for the calendar year 2008 was $96.40; SERS reimbursement to retirees was $45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2008, the actuarially required allocation was 0.66%. For the School District, contributions for the year ended June 30, 2008 were $3,805, which equaled contributions for the year.

<u>Health Care Plan</u>

Ohio Revised Code 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMO's, PPO's and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The Ohio Revised Code provides the statutory authority to fund SERS post-employment benefits through employer contributions. Active members do not make contributions to the post-employment benefit plans.

The Health Care Fund was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. At June 30, 2008, the health care allocation was 4.18 percent. The actuarially required contribution (ARC), as of the December 31, 2006 annual valuation (the latest available), was 11.50 percent of covered payroll. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities of the plan over a period not to exceed thirty years.

NOTE 8 – POSTEMPLOYMENT BENEFITS (Continued)

An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2008, the minimum compensation level was established at $35,800. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2008 fiscal year equaled $171,345.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending upon the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The financial reports of SERS Health Care and Medicare B plans are included in its *Comprehensive Annual Financial Report*. The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS website at www.ohsers.org under *Forms and Publications*.

Net health care costs for the year ending June 30, 2007 (the latest information available) were $127,615,614. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2007, the value of the health care fund was $386.4 million. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claims costs. The number of participants eligible to receive benefits was 55,818.

NOTE 9 – 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, 2008.

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. For fiscal year 2008, the review was completed in September, 2007.

NOTE 10 – OPERATING LEASE

The School leases a building from an unrelated entity. This lease started in July, 2007 and expires in June, 2010. The base rent lease payments are $10,833 a month. Lease expense for the fiscal year ended June 30, 2008 was $130,000.

NOTE 10 – OPERATING LEASE (Continued)

The School also leases land and a building from an unrelated entity. This lease started in January, 2007 and expires in December, 2011, at which time the lease has an option for renewal for a term of 5 years at adjusting rates. For the first twelve months of the lease, the monthly lease payment was $9,000 per month. For the remaining forty-eight months of the lease, the monthly lease payment increased to $16,667. Rent expense for the year ended June 30, 2008 was $154,000.

The School also leases space as needed. Expense on these leases for the year ended June 30, 2008 was $90,000.

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

Years Ending June 30,	Facilities	Equipment	Total
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	$ 1,015,000	$ 21,590	$1,036,590

NOTE 11 – PURCHASED SERVICES

For the year ended June 30, 2008, purchased service expenses were comprised of the following:

Accounting and Business Services	$ 7,600
Legal and Professional	22,027
Printing and Reproduction	13,339
Postage and Delivery	2,034
Bus Transportation	12,730
Building Operations	295,894
Rent	375,515
Communications	112,311
Other Support – Purchased Services	3,000
Other Purchased Services	197,247
Total	$ 1,041,697

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CPA & ADVISORY FIRM

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, 2008, and have issued our report thereon dated July 28, 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 in order to determine 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 effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion 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 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 that is more than inconsequential will not be prevented or detected by the School's internal control. We consider the deficiencies reported below to be significant deficiencies in internal control over financial reporting.

- 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 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.

- 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 ensure 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.

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

Our consideration of 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 we also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

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 the management of the School 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 28, 2010

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
FEBRUARY 15, 2011

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