



Dave Yost • Auditor of State



PACE HIGH SCHOOL  
HAMILTON COUNTY

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

PACE High School  
Hamilton County  
1607 California Avenue  
Cincinnati, Ohio 45237

To the Board of Trustees:

We have audited the accompanying basic financial statements of PACE High School, Hamilton County, Ohio (the School), as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PACE High School, Hamilton County, Ohio, as of June 30, 2012 and 2011, and the changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the School will continue as a going concern. As discussed in Note 12 to the financial statements, The School has suffered recurring losses from operations and has a net asset deficiency of \$800,974 that raise substantial doubt about its ability to continue as a going concern. Note 12 describes Management's plans regarding these matters. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2013, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

**Dave Yost**  
Auditor of State

February 15, 2013

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

**MANAGEMENTS DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(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 ended June 30, 2012. The intent of this discussion and analysis is to look at the financial statements and notes to the basic financial statements to enhance their understanding of the School's financial performance.

**Financial Highlights**

- Total assets decreased \$64,732 from June 30, 2011 to June 30, 2012.
- Net Assets at June 30, 2012 were (\$800,974).
- Total Assets were \$79,664 at June 30, 2012. Cash comprised \$16,442 of this amount.
- Liabilities were \$880,639 at June 30, 2012. This balance mainly represents loans from the School superintendent to the School.
- Liabilities increased by \$ 41,774, which was due to the timing of bills received at year-end and a liability incurred to repay prior year foundation funds.

**Using this Financial Report**

This report consists of three parts, the MD&A, the basic financial statement, 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 2012?"

MD&A does not adequately analyze financial position and results of operations.

**Statement of Net Assets**

The Statement of Net Assets includes all assets and liabilities, both financial and capital, and short-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 2012, 2011, and 2010.

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

**MANAGEMENTS DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(UNAUDITED)**

**Table 1  
Net Assets**

<b>Assets</b>	2012	2011	2010
Current Assets			
Cash	\$16,442	\$0.00	\$269,612
Prepaid Items	<u>\$59,562</u>	<u>\$139,564</u>	<u>52,380</u>
Total Current Assets	<u>\$76,004</u>	<u>\$139,564</u>	<u>\$321,992</u>
Noncurrent Assets			
Depreciable Capital Assets, Net	\$3,660	4,833	28,964
Deposit	<u>\$0</u>	<u>0</u>	<u>16,667</u>
Total Assets	\$79,664 =====	\$ 144,397 =====	\$388,659 =====
<b>Liabilities</b>			
Current Liabilities	\$419,160	383,635	73,864
Long Term Liabilities	<u>\$461,479</u>	<u>455,229</u>	<u>464,605</u>
Total Liabilities	\$880,639	838,864	538,469
<b>Net Assets</b>			
Unrestricted	<u>(\$800,974)</u>	<u>-694,467</u>	<u>-199,810</u>
<b>Total Net Assets</b>	<u>(\$800,974)</u> =====	<u>-694,467</u> =====	<u>-199,810</u> =====

Cash increased \$16,442 as a result of decreased expenses. Net prepaid items decreased \$103 as a result of the receipt of employee advances owed.

Capital assets decreased \$ 1,173 as the result of depreciation. Total assets decreased primarily as a result of the decrease in revenues.

Total liabilities increased approximately \$41,774 as the result of a decrease in foundation revenues which were not completely offset by a decrease in expenditures.

Table 2 provides a summary of the School's change in net assets for 2012, 2011, and 2010 as well as a listing of revenues and expenses.

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

**MANAGEMENTS DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(UNAUDITED)**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating Revenues			
Foundation Payments	\$838,250	\$799,462	\$1,626,803
State Special Education	96,906	124,500	157,595
 Non-Operating Revenues			
Federal and State Grants	214,132	602,563	626,956
 Miscellaneous Income	<u>1,789</u>	<u>\$5,572</u>	<u>\$1,219</u>
 Total Revenue	<u>1,151,077</u>	<u>\$1,532,097</u>	<u>\$2,412,573</u>
 Operating Expenses			
Salaries	538,243	\$940,264	\$1,009,259
Fringe Benefits	191,064	\$248,120	\$277,929
Purchased Services	380,338	\$698,518	\$810,446
Materials and Supplies	12,395	\$23,887	\$20,506
Other Expenses	89,257	\$113,197	\$114,959
Capital Outlay	508	\$1,734	\$895
Depreciation	<u>1,173</u>	<u>\$1,033</u>	<u>\$0</u>
 Total Expenses	1,212,979	<u>\$2,026,753</u>	<u>\$2,233,994</u>
Prior Period Adjustment	(44,605)	0	0
Change in Net Assets	<u>(61,902)</u>	<u>(\$494,656)</u>	<u>\$178,579</u>
Beginning Net Assets	(694,466)	(\$198,810)	(\$378,389)
Ending Net Assets	\$(800,974)	(\$694,466)	(\$199,810)
	=====	=====	=====

Revenues decreased from 2011 to 2012 by \$381,020 primarily due to a decrease in federal grants of \$380,673. The decrease in Federal and state grants was primarily due to the cessation of certain major federal grant programs.

Total expense declined \$813,774 as the result of cost-cutting measures in most categories. The largest cuts were as follows: salaries decreased \$402,020, fringes decreased \$57,057, and purchased services decreased \$313,180.

**Capital Assets**

At the end of the fiscal year 2012, the School had a total of \$ 3,660 in capital assets, net of accumulated depreciation. Table 3 is a summary of changes in the School's capital assets from fiscal year 2011 to fiscal year 2012.

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

**MANAGEMENTS DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(UNAUDITED)**

**Table 3  
Capital Assets**

	<u>June 30, 2011</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2012</u>
Capital Assets	\$ 118,391	\$ 0		\$ 118,391
Less Accumulated Depreciation	<u>\$ 113,558</u>	<u>\$ 1,173</u>		<u>\$ 114,731</u>
Capital Assets, Net	<u>\$ 4,833</u>	<u>\$ 1,173</u>		<u>\$ 3,660</u>

**Long-Term Debt**

At June 30, 2012, the School had \$ 461,479 in long-term debt outstanding.

**Table 4  
Long Term Debt**

Description	Balance			Interest	
	6/30/2011	Additions	Deletions	Balance 6/30/2012	Rate
Promissory Note -Chase	\$226,745		\$2,341	\$224,404	8.55%
Credit Card	0	\$8,194		\$8,194	7.24%
Promissory Note - Advantage	\$29,433		\$1,205	\$28,228	6.95%
Promissory Note 2 Chase	\$199,051	\$1,602		\$200,653	4.88%
	<u>\$455,229</u>	<u>\$9,796</u>	<u>\$3,546</u>	<u>\$461,479</u>	

**Current Financial Issues**

The P.A.C.E. High School was formed in 2005. During the 2011-2012 school year, there was an average of 164 students enrolled in the School. The School receives its finances mostly from state aid. Per pupil aid for fiscal year 2012 amounted to \$6,671 per student. The average number of years experience for teachers was 2 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](mailto:Stephanie.millard@zoomtown.com).

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

**STATEMENT OF NET ASSETS AS  
OF JUNE 30, 2012**

<b>Assets</b>		
<u>Current Assets</u>	<u>2012</u>	<u>2011</u>
Cash	\$16,442	\$0
Intergovernmental Receivable	9,057	88,961
Prepaid Items	<u>50,505</u>	<u>50,602</u>
Total Current Assets	<u>76,004</u>	<u>139,564</u>
<u>Noncurrent Assets</u>		
Depreciable Capital Assets, Net	3,660	4,833
Deposit	<u>0</u>	<u>\$0</u>
Total Noncurrent Assets	<u>3,660</u>	<u>4,833</u>
Total Assets	79,664	\$144,397
<b>Liabilities</b>		
<u>Current Liabilities</u>	-	
Accounts Payable	187,482	89,798
Accrued Wages	45,191	57,424
Intergovernmental Payable	174,292	216,833
Other Liabilities	<u>4,168</u>	<u>10,680</u>
Total Current Liabilities	411,133	\$374,734
<u>Non-Current Liabilities</u>	-	
Line of Credit	8,027	8,900
Long Term Liabilities	<u>461,480</u>	<u>455,229</u>
Total Long-Term Liabilities	<u>469,507</u>	<u>464,129</u>
Total Liabilities	880,639	838,864
<b>Net Asset</b>		
Unrestricted	<u>(800,974)</u>	<u>(694,467)</u>
<b>Total Net Assets</b>	<u>\$ (800,974)</u>	<u>\$(694,467)</u>

See the Accompanying Notes to the Basic Financial Statements.

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

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>2012</u>	<u>2011</u>
<b>Operating Revenues</b>		
Foundation Payments	\$ 838,250	\$799,462
State Special Education	<u>96,906</u>	<u>124,500</u>
Total Operating Revenues	<u>935,156</u>	<u>923,962</u>
 <b>Operating Expenses</b>		
Salaries	538,243	940,264
Fringe Benefits	191,064	248,120
Purchased Services	380,538	698,518
Materials and Supplies	12,395	23,887
Other Expenses	89,257	113,197
Capital Outlay	508	1,734
Depreciation	1,173	<u>1,033</u>
Total Operating Expenses	<u>1,212,979</u>	<u>2,026,753</u>
Operating Loss	<u>(277,823)</u>	<u>(1,102,791)</u>
 <b>Non-Operating Revenues</b>		
Federal and State Grants	214,132	602,563
Miscellaneous Income	1,789	<u>5,571</u>
Total Non-Operating Revenues	<u>215,921</u>	<u>608,134</u>
Change in Net Assets	<u>(61,902)</u>	<u>(494,657)</u>
Prior Period Adjustment	<u>(44,605)</u>	<u>0</u>
 <b>Beginning Net Assets</b>	 (694,467)	 (199,810)
<b>Ending Net Assets</b>	 <u>\$(800,974)</u>	 <u>\$(694,467)</u>

See the Accompanying Notes to the Basic Financial Statements.

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

**STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>2012</u>	<u>2011</u>
<b><i>Increase (Decrease) in Cash and Cash Equivalents:</i></b>		
<b><u>Cash Flows from Operating Activities</u></b>		
Cash Received from State of Ohio	\$949,144	\$1,140,795
Cash Payments to Employees	(742,753)	(1,186,216)
Cash Payments for Supplies	(12,251)	(24,533)
Cash Payments for Other Activities	(472,389)	(732,993)
<i>Net Cash Used for Operating Activities</i>	(278,249)	(802,947)
<b><u>Cash Flows from Noncapital Financing Activities</u></b>		
Operating Grants Received	359,954	513,602
Other	24,789	5,572
<i>Net Cash Provided by Noncapital Financing Activities</i>	384,743	519,174
<b><u>Cash Flows from Capital and Related Financing Activities</u></b>		
Outflows for Capital Acquisition	-	(5,866)
Deposit	11,358	16,667
Bank Funded Credit	(4,709)	12,736
Adjustment for Intergovernmental Payable	(87,146)	
Principal Paid on Capital Debt	(9,555)	(9,376)
<b>Net Cash Provided by Capital and Related Financing Activities</b>	(90,052)	14,161
<i>Net Change in Cash and Cash Equivalents</i>	16,442	(269,612)
Cash and Cash Equivalents at Beginning of Year	-	269,612
Cash and Cash Equivalents at End of Year	16,442	-
<b><u>Reconciliation of Operating Income to Net Cash Used for Operating Activities</u></b>		
Operating Loss	(277,823)	(1,102,791)
<b><u>Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:</u></b>		
Depreciation Expense	1,173	1,033
Changes in Assets and Liabilities		
Decrease / ( Increase) in Prepaid Items	97	1,778
(Decrease) / Increase in Accounts Payable	97,683	89,798
(Decrease) / Increase in Accrued Wages and Benefits	(12,233)	(9,598)
(Decrease) / Increase in Intergovernmental Payable	(87,146)	216,833
Total Adjustments	(426)	299,844
<i>Net Cash Used by Operating Activities</i>	\$(278,249)	\$(802,947)

See the Accompanying Notes to the Basic Financial Statements.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**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 contracts 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, 2012. The sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expirations 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 on instructional/support facility staffed by 5 non-certified employees and 7 certificated full time teaching personnel who provide services to 116 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 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.

The School uses enterprise accounting to maintain its financial records. 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.

**Basis of Accounting**

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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, 2012, 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. Net assets represent the difference between assets and liabilities. Net assets and capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for music and athletic programs and student activities and federal and State grants restricted to expenditures for specified purposes.

The School applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activities. For the School, these revenues are primarily foundation payments from the state. Operating expenses are necessary costs incurred to provide the 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 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, 2011, the School's deposits were \$ 0 and the bank balance was (\$ 8,392.48) which was recorded as a liability in order so that the asset was not reported as a negative amount. The bank balance is covered by federal depository insurance.

At June 30, 2012, the School's deposits were \$ 16,442.26, and the bank balances \$6,474. Of the bank balance up to \$ 250,000 is covered by federal depository insurance and the excess, if any, is insured by collateralized securities held by the pledging institutions' trust department in the School's name.

**NOTE 4 – CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2012:

<b><u>Business- Type Activity</u></b>	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2012</u>
Capital Assets Being Depreciated	\$ 118,391	\$ 0	\$	118,391
Less Accumulated Depreciation	<u>\$ 113,558</u>	<u>\$ 1,173</u>	<u>\$</u>	<u>114,731</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 4,833 -</u>	<u>\$ 3,660</u>	<u>\$</u>	<u>3,660</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**NOTE 4 – CAPITAL ASSETS (Continued)**

Capital asset activity for the fiscal year ended June 30, 2011:

<u>Business- Type Activity</u>	<u>June 30, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2011</u>
Capital Assets Being Depreciated	\$ 112,525	\$ 5,866	\$	118,391
Less Accumulated Depreciation	<u>\$ 112,525</u>	<u>\$ 1,033</u>	<u>\$</u>	<u>113,558</u>
Total Capital Assets Being Depreciated, Net	<u>\$ -</u>	<u>\$ 4,833</u>	<u>\$</u>	<u>4,833</u>

**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 2012, 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 \$5000 deductible. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There have been no significant reductions in insurance coverage from last fiscal year.

**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 Employee Retirement System**

**Plan Description** – 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.

**Funding Policy** – 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 2012, 9.16 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employees are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$26,879, \$57,422 and \$68,718 respectively; 100 percent has been for fiscal years 2012, 2011 and 2010.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**NOTE 6 – DEFINED BENEFIT PENSION PLANS (Continued)**

**State Teachers Retirement System**

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum with withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

**Funding Policy** – For the fiscal year ended June 30, 2012, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For the fiscal year 2012, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011, and 2010 were \$41,714, \$68,207 and \$78,343. respectively; 100 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

**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 Retirement System. The contribution rate is 4.2 percent of wages.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**NOTE 7 – POSTEMPLOYMENT BENEFITS School Employee Retirement System**

**Plan Description** – The School participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

**Funding Policy** – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care fund was established and is administered in accordance with Internal Revenue Code Section 401H. For 2012, 4.46 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2012 there was no surcharge due or payable.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were \$8,562, \$18,293 and \$27,169.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2012, this actuarially required allocation was 0.76 percent of covered payroll. The School's contribution for Medicare Part B for the fiscal year ended June 30, 2012, was \$4,290; 100 percent has been contributed for fiscal year 2012.

**State Teachers Retirement System**

**Plan Description** – The School contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

**Funding Policy** – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School's contributions for health care for the fiscal years ended June 30, 2012, 2011, 2010 were \$4,733, \$6,500, and \$8,098 respectively. 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**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's agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the School. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2012.

**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.

**NOTE 9 – OPERATING LEASE**

The School leases a building from an unrelated entity. This lease started in July, 2007 and the lease was renewed for one year and expires June, 2012. The base rent lease payments were \$15,500 a month, and were negotiated downward to \$ 14,500 per month in September 2012. Lease expense for the fiscal year ended June 30, 2012 was \$177,980. The lease was renewed for 2012-2013.

The school also leases copier equipment from an unrelated entity at \$ 986.71 per month. The lease started in December 2009 and was re-negotiated in November 2011 for \$ 997.77 per month, to expire in 2013. Lease expense for the year ended June 2012 was \$ 11,080.

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

	<u>Years Ending</u> <u>June 30</u>	<u>Equipment</u>	<u>Total</u>
	2012	\$ 11,973	\$11,973
	2013	\$ 11,973	\$ 11,973
Total	<u>\$ 23,946</u>	<u>\$ 23,946</u>	

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**NOTE 10 – NOTES PAYABLE – RELATED PARTY**

	<u>June 30 2011</u>	<u>Issuance of Debt</u>	<u>Payments</u>	<u>June 30 2012</u>
Notes Payable - Related Party	\$455,229	9,796	\$(3,546)	\$461,479

	<u>June 30 2010</u>	<u>Issuance of Debt</u>	<u>Payments</u>	<u>June 30 2011</u>
Notes Payable - Related Party	\$464,605	0	\$(9,376)	\$455,229

The School has four unsecured, interest bearing notes payable to the Superintendent. As of June 30, 2012, there were no set payment terms. Payments are made based on available cash flows of the school. A summary of note activity follows:

Description	Balance 6/30/2011	Additions	Deletions	Balance 6/30/2012	Interest Rate
Credit Card Line	0	8,194	\$ 8,194		7.24%
Promissory Note -Chase Bank	\$226,745	\$2,341	\$226,745		8.55%
Promissory Note - Advantage Bank	\$ 29,433	1,205	\$29,433		5.25%
Promissory Note - Chase Bank Loan	\$199,051	1,602	\$199,051		7.25%
	<u>\$455,605</u>	<u>1,602</u>	<u>\$3,546</u>	<u>\$455,229</u>	

Description	Balance 6/30/2010	Additions	Deletions	Balance 6/30/2011	Interest Rate
Promissory Note -Chase Bank	\$228,921	\$2,176	\$226,745		8.55%
Promissory Note - Advantage Bank	\$35,363	\$5,930	\$29,433		5.25%
Promissory Note - Chase Bank Loan	\$200,321	\$1,270	\$199,051		7.25%
	<u>\$464,605</u>	<u>\$9,376</u>	<u>\$455,229</u>		<u>\$480,681</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**NOTE 11 – PURCHASED SERVICES**

For the year ended June 30, 2012, purchased service expenses were comprised of the following:

Instructional Services	\$103,576
Travel	24
Professional Development	11,735
Psychological Testing-Spec Ed	6,335
Printing and Reproduction	11,978
Postage and Delivery	715
Catering	21,855
Accounting, Professional, & Other	6,977
Property Services	<u>214,142</u>
TOTAL PURCHASED SERVICES	<u><u>\$394,838</u></u>

**NOTE 12 – GOING CONCERN**

For the year ended June 30, 2012, the school had an operating loss of (\$73,743) and an unrestricted net asset deficit of (\$800,974). Most of the net asset deficit is due to a liability incurred to repay prior year foundation funds. Management has enacted a budget reduction, reduced costs, and implemented a marketing program to improve cash flow.

**NOTE 13- COMMUNITY SCHOOL CONTINGENCY FOOTNOTE DISCLOSURE**

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date. PACE HIGH SCHOOL received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2012, if applicable, cannot be determined at this time.

**NOTE 14- PRIOR PERIOD ADJUSTMENT**

The school recorded a prior period adjustment for the fiscal year ended June 30, 2012 in the amount of \$44,605. The expense is an amount due to the state of Ohio for repayment of student funds for a prior year.

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

PACE High School  
Hamilton County  
1607 California Avenue  
Cincinnati, Ohio 45237

To the Board of Directors:

We have audited the basic financial statements of PACE High School, Hamilton County, Ohio (the School), as of and for the years ended June 30, 2012 and 2011 and have issued our report thereon dated February 15, 2013, wherein we noted the accompanying financial statements have been prepared assuming that the School will continue as a going concern. As discussed in Note 12 to the financial statements, the School has suffered recurring losses from operations and has a net asset deficiency of \$800,974 that raise substantial doubt about its ability to continue as a going concern.. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and timely corrected.

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

### **Compliance and Other Matters**

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain matters not requiring inclusion in this report that we reported to the School's management in a separate letter dated February 15, 2013

We intend this report solely for the information and use of management, the audit committee, the Board of Directors, the Community School's sponsor, and others within the School. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State

February 15, 2013



# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

PACE High School  
Hamilton County  
1607 California Avenue  
Cincinnati, Ohio 45237

To the Board of Directors:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether PACE High School (the School) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. In our report dated February 15, 2013, we noted the Board adopted an anti-harassment policy on August 10, 2011. However, this policy did not include all matters required by Ohio Rev. Code 3313.666.
  - "Full compliance" includes both compliance with the original anti-bullying laws as described in AOS Bulletin 2009-010 and the HB 19 amendment (128<sup>th</sup> General Assembly) to add violence in a dating relationship to school district anti-bullying policies.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and School's sponsor and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State

February 15, 2013



# Dave Yost • Auditor of State

**PACE 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  
MARCH 12, 2013**