

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

JUNE 30, 2005

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT



Mary Taylor, CPA
Auditor of State

Board of Trustees
P.A.C.E. High School
4753 Reading Road
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, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 2, 2007

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

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of P.A.C.E. High School, Hamilton County, as of and for the year ended June 30, 2005, 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, 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, 2005, and the respective changes in financial position and cash flows, where applicable, thereof 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 March 13, 2006, on our consideration of the P.A.C.E. High School, Hamilton County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis information on pages 1 through 3 are not a required part of the basic financial statements but are 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
March 13, 2006

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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, 2005. 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 Government 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

- P.A.C.E. High School was started in fiscal year 2005. Therefore no comparative information is available.
- Net assets at June 30, 2005 were \$77,008.
- Total assets were \$154,092 at June 30, 2005. Cash comprised 94% of this amount.
- Liabilities were \$77,084 at June 30, 2005. This balance represents liabilities due to employees for wages and benefits.

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 Activities answers the question, "How did we do financially during 2005?"

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, 2005
UNAUDITED
(Continued)

Table 1 provides a summary of the School's net assets for fiscal year 2005:

Table 1
Net Assets

	<u>2005</u>
Assets	
Current Assets	\$ <u>154,092</u>
Total Assets	<u>154,092</u>
Liabilities	
Current Liabilities	<u>77,084</u>
Total Liabilities	<u>77,084</u>
Net Assets	
Unrestricted	<u>77,008</u>
Total Net Assets	<u>\$ <u>77,008</u></u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Table 2 shows the changes in net assets for fiscal year 2005 as well as a listing of revenues and expenses.

**Table 2
Change in Net Assets**

	<u>2005</u>
Operating Revenues	
Foundation Payments	\$ 1,659,587
Disadvantaged Pupil Impact Aid	9,510
State Special Education	47,785
Non-Operating Revenues	
Federal and State Grants	48,878
Miscellaneous Income	489
Total Revenues	<u>1,766,249</u>
Operating Expenses	
Salaries	879,791
Fringe Benefits	227,138
Purchased Services	441,571
Materials and Supplies	41,813
Other Expenses	37,862
Capital Outlay	61,066
Total Expenses	<u>1,689,241</u>
Change in Net Assets	<u>\$ 77,008</u>

P.A.C.E. had a budget of \$2,925,000 in revenue for FY 2005. The School made 60% of the revenue budget in FY 2005. The School was not able to secure the grant revenue that was contained in the budget.

The budget for expenses was \$2,822,530 for FY 2005. Since the School was short on their revenue sources, expenses were cut back to keep the school from losing money in FY 2005.

Current Financial Issues

The P.A.C.E. High School was formed in 2004. During the 2004-2005 school year, there were approximately 400 students enrolled in the School. The School receives its finances mostly from state aide. Per pupil aide for fiscal year 2005 amounted to \$4,416 per student. The average number of years experience for teachers was 5 years.

Contacting the School's Financial Management

This financial report is designed to provide our citizens 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, 2005**

Assets

Current Assets

Cash	\$ 145,201
Prepaid Items	<u>8,891</u>

Total Assets	<u>154,092</u>
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Liabilities

Current Liabilities

Accrued Wages And Benefits	<u>77,084</u>
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Total Liabilities	<u>77,084</u>
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Net Assets

Unrestricted	<u>77,008</u>
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Total Net Assets	\$ <u><u>77,008</u></u>
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See accompanying notes.

**P.A.C.E. HIGH SCHOOL
HAMILTON COUNTY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
Year Ended June 30, 2005**

Operating Revenues	
Foundation Payments	\$ 1,659,587
State Special Education	47,785
Disadvantaged Pupil Impact Aid	<u>9,510</u>
Total Operating Revenues	<u>1,716,882</u>
Operating Expenses	
Salaries	879,791
Fringe Benefits	227,138
Purchased Services	441,571
Materials and Supplies	41,813
Other Operating Expenses	24,986
Capital Outlay	<u>61,066</u>
Total Operating Expenses	<u>1,676,365</u>
Operating Income	<u>40,517</u>
Non-Operating Revenues (Expenses)	
Other Federal and State Grants	48,878
Miscellaneous Income	489
Interest Expense	<u>(12,876)</u>
Total Non-Operating Revenues (Expenses)	<u>36,491</u>
Change in Net Assets	77,008
Net Assets July 1, 2004	<u>-</u>
Net Assets June 30, 2005	<u>\$ 77,008</u>

See accompanying notes.

**P.A.C.E. HIGH SCHOOL
HAMILTON COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended June 30, 2005**

Cash Flows From Operating Activities

Cash Received from	
State of Ohio	\$ 1,716,882
Cash Paid to/for	
Employees	1,029,845
Supplies	41,813
Other Activities	<u>536,514</u>
Net Cash Provided by Operating Activities	<u>108,710</u>

Cash Flows from Noncapital Financing Activities

Operating Grants Received	48,878
Miscellaneous Income	<u>489</u>
Net Cash Provided by Noncapital Financing Activities	<u>49,367</u>

Cash Flows from Financing Activities

Proceeds from Line of Credit	327,100
Payments on Line of Credit	(126,318)
Payments on Installment Debt	(200,782)
Interest Paid on Line of Credit	(4,112)
Interest Paid on Installment Note	<u>(8,764)</u>
Cash Flows Used by Financing Activities	<u>(12,876)</u>
Net Change in Cash	145,201

Cash and Cash Equivalents July 1, 2004

	<u>-</u>
Cash and Cash Equivalents June 30, 2005	\$ <u><u>145,201</u></u>

Reconciliation of Operating Income to Net Cash

Provided by Operating Activities	
Operating Income	\$ 40,517

Adjustments to Reconcile Operating Income to Net Cash

Provided by Operating Activities	
Changes in Assets and Liabilities	
Increase in Prepaid Items	(8,891)
Increase in Accrued Wages and Benefits	<u>77,084</u>
Net Cash Provided by Operating Activities	\$ <u><u>108,710</u></u>

See accompanying notes.

**P.A.C.E. HIGH SCHOOL
HAMILTON COUNTY
NOTES TO THE FINANCIAL STATEMENTS**

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, 2006. 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 13 non-certified employees and 12 certificated full time teaching personnel who provide services to 400 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 on or before November 30, 1989, to its proprietary activities, provided they do not conflict with or contradict GASB pronouncements. The more significant of the School's accounting policies are described below.

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, 2005, 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, personal and sick leave components are derived from policies and procedures approved by the Board of Trustees. Non-certified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to non-certified employees upon termination of employment. Teachers and administrators who are not on a twelve month contract do not earn vacation time.

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

Insurance Benefits

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

Net Assets

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

Operating Revenues and Expenses

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

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 3 – CASH AND CASH FLOW INFORMATION

At June 30, 2005, the School's deposits were \$145,201, and the bank balance was \$149,712. Of the bank balance, \$100,000 was covered by federal depository insurance.

The School had noncash financing activities as follows:

Refinance Line of Credit into Installment Debt \$ 200,782

NOTE 4 – LINE OF CREDIT / INSTALLMENT DEBT

In August, 2004, the School executed a revolving line of credit in the amount of \$250,000 with an interest at the prime rate plus 3%. The line of credit expired in January, 2005, at which time the note was converted to a term note that matured in June, 2005. The note charged interest at the prime rate plus 3%. At June 30, 2005, the balance on the term note was paid off.

The following is a summary of the School's debt transactions for the year ended June 30, 2005:

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Repayments and Refinance</u>	<u>Balance June 30, 2005</u>
Line of Credit	\$ -	\$ 327,100	\$ 327,100	\$ -
Installment Debt	<u>-</u>	<u>200,782</u>	<u>200,782</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ 527,882</u>	<u>\$ 527,882</u>	<u>\$ -</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 2005, 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 \$10,000 deductible.

Workers' Compensation

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

NOTE 6 – DEFINED BENEFIT PENSION PLANS

School Employees Retirement System

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

NOTE 6 – DEFINED BENEFIT PENSION PLANS (Continued)

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 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal year ended June 30, 2005 was \$42,928; 92 percent has been contributed for fiscal year 2005. The unpaid contribution for fiscal year 2005 totaling \$3,337 is recorded as a liability.

State Teachers Retirement System of Ohio

The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

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

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

For the fiscal year ended June 30, 2005, 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. 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 for the fiscal year ended June 30, 2005 was \$62,857; 88.6 percent has been contributed for fiscal year 2005. The unpaid contribution for fiscal year 2005 totaling \$7,162 is recorded as a liability.

NOTE 7 – POSTEMPLOYMENT BENEFITS

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

STRS retirees who participate in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1 % of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$7,528 for fiscal year 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004, (the latest information available) the balance was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400; however, the surcharge is capped at 2 percent of each employer's SERS salaries. For the fiscal year 2005, the School paid \$10,517 to fund health care benefits, excluding the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004 (the latest information available), were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

NOTE 8 – CONTINGENCIES

Grants

The School received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the School. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2005.

NOTE 8 – CONTINGENCIES (Continued)

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 2005, the review was completed in March, 2005.

Litigation

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

NOTE 9 – OPERATING LEASE

The School leases mobile trailers from an unrelated entity. The lease payments are \$11,800 a month. Lease expense for the fiscal year ended June 30, 2005 was \$71,200.

The School also leases the grounds where the trailers are located from an unrelated entity. The lease payments were \$33,000 per month for the partial year. Payments are adjusted July 1, 2005 to \$18,000 per month and expires December, 2007, at which time the lease automatically renews for a term of 10 years at adjusting rates. Rent expense for the year ended June 30, 2005 was \$198,000.

The School also leases space as needed. Expense on these leases for the year ended June 30, 2005 was \$3,600.

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

Years Ending <u>June 30,</u>	
2006	\$ 357,600
2007	249,600
2008	250,800
2009	365,400
2010	376,362
Thereafter	<u>3,689,027</u>
	<u>\$ 5,288,789</u>

NOTE 10 – PURCHASED SERVICES

For the year ended June 30, 2005, purchased service expenses were comprised of the following:

Accounting and Business Services	\$ 7,280
Legal and Professional	62,745
Printing and Reproduction	9,671
Postage and Delivery	950
Bus Transportation	4,234
Building Operations	20,984
Rent	272,800
Communications	41,855
Other Purchased Services	<u>21,052</u>
Total	<u>\$ 441,571</u>

NOTE 11 – INTEREST EXPENSE

For the year ended June 30, 2005, the School incurred interest expense of \$12,876.



**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, 2005, which collectively comprise P.A.C.E. High School, Hamilton County's basic financial statements, and have issued our report thereon dated March 13, 2006. 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 and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

We noted certain additional matters that we reported to management of the School in a separate letter dated March 13, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

VonLehman & Company Inc.

Fort Mitchell, Kentucky
March 13, 2006



Mary Taylor, CPA
Auditor of State

P.A.C.E. HIGH SCHOOL

HAMILTON COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 15, 2007**