



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
1601 California Avenue
Cincinnati, Ohio 45237

To the Board of Directors:

We have audited the accompanying financial statements of the business-type activities of Pace High School, Hamilton County, Ohio (the School), as of and for the years ended June 30, 2010 and 2009, which collectively comprise the School's basic financial statements 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.

Except as described below, 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.

The School did not maintain supporting documentation for student full-time equivalencies reported to the Ohio Department of Education (ODE); the full-time equivalencies are used by ODE to calculate the School's State Foundation Settlement payments for the amounts shown as Foundation Payment revenue of \$1,626,803 on the School's Statement of Revenues, Expenses, and Changes in Net Assets.

In our opinion, except for such adjustments, if any, might have been determined to be necessary had we been able to obtain sufficient evidence supporting the receipts noted in the previous paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Pace High School, Hamilton County, Ohio, as of June 30, 2010 and 2009, and the respective changes in financial position and its cash flows, thereof 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 described in Note 12, the School has an operating loss of (\$449,596) for the year ended June 30, 2010, and unrestricted net asset deficit of (\$199,810) at June 30, 2010, 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 March 24, 2011, 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.

We conducted our audit to opine on the financial statements that collectively comprise the School's basic financial statements taken as a whole. The federal awards receipts and expenditure schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The federal awards receipts and expenditure schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

March 24, 2011

**P.A.C.E. HIGH SCHOOL
HAMILTON COUNTY
MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(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, 2010. 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 increased \$137,456 from June 30, 2009 to June 30, 2010.
- Net Assets at June 30, 2010 were \$(199,810).
- Total Assets were \$338,659 at June 30, 2010. Cash comprised \$269,612 of this amount.
- Liabilities were \$538,469 at June 30, 2010. This balance mainly represents Loans from the School superintendent to the School.
- Liabilities decreased by \$41,123, which was due to the timing of payments.

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 2010?"

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.

**P.A.C.E. HIGH SCHOOL
HAMILTON COUNTY
MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)**

Table 1 provides a summary of the School's net assets for fiscal years 2010, 2009, and 2008.

**Table 1
Net Assets**

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Assets			
Current Assets			
Cash	\$ 269,612	\$ 58,172	\$ 41,146
Prepaid Items	<u>52,380.00</u>	<u>97,400</u>	<u>12,699</u>
Total Current Assets	<u>\$ 321,992.00</u>	<u>\$ 155,572</u>	<u>\$ 53,845</u>
Noncurrent Assets			
Depreciable Capital Assets, Net		28,964	66,472
Deposit	<u>16,667</u>	<u>16,667</u>	<u>16,667</u>
Total Assets	\$ 338,659	\$ 201,203	\$ 136,984
	=====	=====	=====
Liabilities			
Current Liabilities	\$ 73,864	\$ 98,911	\$ 208,826
Long Term Liabilities	<u>464,605</u>	<u>480,681</u>	<u>471,384</u>
Total Liabilities	\$ 538,469	\$ 579,592	\$ 680,210
Net Assets			
Unrestricted	<u>\$ (199,810)</u>	<u>\$ (378,389)</u>	<u>\$ (543,226)</u>
Total Net Assets	<u>\$ (199,810)</u>	<u>\$ (378,389)</u>	<u>\$ (543,226)</u>
	=====	=====	=====

Cash increased \$ 211,440 as a result of improved cash flow brought about by decreases in operating expenses across all budget categories. Prepaid items decreased \$ 45,020 due to the timing of payments.

Capital assets decreased as a result of the full depreciation of fixed assets.

Total assets increased primarily as a result of the increase in cash.

Current liabilities decreased \$ 25,047 as the result of a decrease in both accounts payable and accrued wages at year end.

Long term liabilities decreased \$ 16,076 as the result of the pay-down of loans from the Superintendent to the School.

**P.A.C.E. HIGH SCHOOL
HAMILTON COUNTY
MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)**

Net assets increased \$ 178,579 as a result of cost-cutting measures across all expense categories.

Table 2 provides a summary of the School's change in net assets for 2010, 2009, and 2008 as well as a listing of revenues and expenses.

	2010	2009	2008
Operating Revenues			
Foundation Payments	\$ 1,626,803	\$ 2,021,854	\$ 2,189,061
State Special Education	\$ 157,595	\$ 199,897	\$ 216,793
Non-Operating Revenues			
Federal and State Grants	\$ 626,956	\$ 269,538	\$ 270,254
Miscellaneous Income	<u>\$ 1,219</u>	<u>\$ 95,136</u>	<u>\$ 11,556</u>
Total Revenue	<u>\$ 2,412,573</u>	<u>\$ 2,586,425</u>	<u>\$ 2,687,664</u>
Operating Expenses			
Salaries	\$ 1,009,259	\$ 1,046,523	\$ 1,360,745
Fringe Benefits	\$ 277,929	\$ 320,955	\$ 438,782
Purchased Services	\$ 810,446	\$ 815,484	\$ 1,041,697
Materials and Supplies	\$ 20,506	\$ 35,467	\$ 84,019
Other Expenses	\$ 114,959	\$ 173,846	\$ 167,031
Capital Outlay	<u>\$ 895</u>	<u>\$ 29,313</u>	<u>\$ 735</u>
Total Expenses	<u>\$ 2,233,994</u>	<u>\$ 2,421,588</u>	<u>\$ 3,093,009</u>
Changes in Net Assets	<u>\$ 178,579</u>	<u>\$ 164,837</u>	<u>\$ (405,345)</u>
Beginning Net Assets	\$ (378,389)	\$ (543,226)	\$ (137,881)
Ending Net Assets	<u>\$ (199,810)</u>	<u>\$ (378,389)</u>	<u>\$ (543,226)</u>

See the Accompanying Notes to the Basic Financial Statements.

Revenues decreased from 2009 to 2010 by \$ 173,852 primarily due to a decrease in foundation payments of \$395,051 and special ed funds of \$ 42,302. The decrease in foundation payments was due to both a decline in enrollment and state budget cuts. Federal grants increased \$206,843 as a result of the federal ARRA grants program, partially offsetting the decline in foundation revenues.

Miscellaneous income declined as the result of decline in funding from the e-rate program.

Total expenses declined \$187,594 as the result of cost-cutting measures in all categories. The largest cuts were as follows: salaries decreased \$37,264, fringes decreased \$43,026, materials decreased \$14,961, and other expenses such as insurance and fees decreased \$58,887.

**P.A.C.E. HIGH SCHOOL
HAMILTON COUNTY
MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)**

The change in net assets of \$178,579 was the result of a decrease in expenses in excess of the decrease in revenues. The increase in net assets reduced the negative net assets position from (\$378,389) to (\$199,810).

Capital Assets

At the end of the fiscal year 2010, the School had a total of \$0 in capital assets, net of accumulated depreciation. Table 3 is a summary of changes in the School's capital assets from fiscal year 2009 to fiscal year 2010.

**Table 3
Capital Assets**

	<u>June 30, 2009</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2010</u>
Computers	\$ 112,525			\$ 112,525
Less Accumulated Depreciation	\$ 83,561	\$ 28,964		\$ 112,525
Capital Assets, Net	<u>\$ 28,964</u>	<u>\$ 28,964</u>	<u>\$ -</u>	<u>\$ -</u>

Long-Term Debt

At June 30, 2010, the School had \$464,605 in long-term debt outstanding.

**Table 4
Long Term Debt**

Description	Balance 7/1/2009	Additions	Deletions	Balance 6/30/2010	Interest Rate
Personal Loan from Superintendent	\$ 12,000	\$ -	\$ (12,000)	\$ -	0%
Promissory Note - Chase Bank	\$ 230,920	\$ -	\$ (1,999)	\$ 228,921	8.55%
Promissory Note - Advantage Bank	\$ 36,222	\$ -	\$ (859)	\$ 35,363	5.25%
Promissory Note - Chase Bank Loan	\$ 201,539	\$ -	\$ (1,218)	\$ 200,321	7.25%
	<u>\$ 480,681</u>	<u>\$ -</u>	<u>\$ (16,076)</u>	<u>\$ 464,605</u>	

**P.A.C.E. HIGH SCHOOL
HAMILTON COUNTY
MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)**

Current Financial Issues

The P.A.C.E. High School was formed in 2005. During the 2009-2010 school year, there was an average of 226 students enrolled in the School. The School receives its finances mostly from state aid. Per pupil aid for fiscal year 2010 amounted to \$5,718 per student. The average number of years experience for teachers was 8 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.

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**P.A.C.E. HIGH SCHOOL
HAMILTON COUNTY
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2010**

	<u>2010</u>	<u>2009</u>
Assets		
Current Assets		
Cash	\$ 269,612	\$ 58,172
Prepaid Items	<u>\$ 52,380</u>	<u>\$ 97,400</u>
Total Liabilities	<u>\$ 321,992</u>	<u>\$ 155,572</u>
Noncurrent Assets		
Depreciable Capital Assets, Net	\$ -	\$ 28,964
Deposit	<u>\$ 16,667</u>	<u>\$ 16,667</u>
Total Assets	<u>\$ 338,659</u>	<u>\$ 201,203</u>
	=====	=====
Liabilities		
Current Liabilities		
Accounts Payable	\$	\$ 9,579
Accrued Wages	<u>\$ 73,864</u>	<u>\$ 89,332</u>
Total Current Liabilities	<u>\$ 73,864</u>	<u>\$ 98,911</u>
Long Term Liabilities	<u>\$ 464,605</u>	<u>\$ 480,681</u>
Total Liabilities	\$ 538,469	\$ 579,592
Net Assets		
Invested in Capital Assets, net of related debt		28,964
Unrestricted	<u>\$ (199,810)</u>	<u>\$ (407,353)</u>
Total Net Assets	<u>\$ (199,810)</u>	<u>\$ (378,389)</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, 2010**

	2010	2009
Operating Revenues		
Foundation Payments	\$ 1,626,803	\$ 2,021,854
State Special Education	<u>\$ 157,595</u>	<u>\$ 199,897</u>
 Total Operating Revenues	 <u>\$ 1,784,398</u>	 <u>\$ 2,221,751</u>
 Operating Expenses		
Salaries	\$ 1,009,259	\$ 1,046,523
Fringe Benefits	\$ 277,929	\$ 320,955
Purchased Services	\$ 810,446	\$ 815,484
Materials and Supplies	\$ 20,506	\$ 35,467
Other Expenses	\$ 114,959	\$ 173,846
Capital Outlay	<u>\$ 895</u>	<u>\$ 29,313</u>
 Total Operating Expenses	 <u>\$ 2,233,994</u>	 <u>\$ 2,421,588</u>
 Operating Loss	 <u>\$ (449,596)</u>	 <u>\$ (199,837)</u>
 Non-Operating Revenues		
Federal and State Grants	\$ 626,956	\$ 269,538
Miscellaneous Income	<u>\$ 1,219</u>	<u>\$ 95,136</u>
 Total Non-Operating Revenues	 <u>\$ 628,175</u>	 <u>\$ 364,674</u>
 Change in Net Assets	 \$ 178,579	 \$ 164,837
 Beginning Net Assets	 <u>\$ (378,389)</u>	 <u>\$ (543,226)</u>
 Ending Net Assets	 \$ (199,810) =====	 \$ (378,389) =====

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, 2010**

	<u>2010</u>	<u>2009</u>
<u>Cash Flows from Operating Activities:</u>		
Cash Received from State of Ohio	1,784,398	2,221,751
Cash Payments to Employees	(1,402,656)	(1,462,048)
Cash Payments for Supplies	(20,506)	(35,467)
Cash Payments for Other Activities	(761,896)	(1,081,181)
	<hr/>	<hr/>
<i>Net Cash Used for Operating Activities</i>	(400,660)	(356,945)
 <u>Cash Flows from Noncapital Financing Activities:</u>		
Operating Grants Received	626,956	269,538
Other	1,219	95,136
	<hr/>	<hr/>
<i>Net Cash Provided by Noncapital Financing Activities</i>	628,175	364,674
 Cash Flows From Capital and Related Financing Activities		
Proceeds From Capital Debt	-	47,000
Principal Paid on Capital Debt	(16,075)	(37,703)
	<hr/>	<hr/>
Net Cash Provided by Capital and Related Financing Activities	-	-
<i>Net Change in Cash and Cash Equivalents</i>	<hr/>	<hr/>
	211,440	17,026
Cash and Cash Equivalents at Beginning of Year	58,172	41,146
	<hr/>	<hr/>
Cash and Cash Equivalents at End of Year	269,612	58,172
	<hr/> <hr/>	<hr/> <hr/>
 Reconciliation of Operating Income to Net Cash		
<u>Used for Operating Activities:</u>		
Operating Loss	<u>\$ (449,596)</u>	<u>\$ (199,837)</u>
 Adjustments to Reconcile Operating Loss to Net		
<u>Cash Used for Operating Activities:</u>		
Depreciation Expense	28,964	37,508
Changes in Assets and Liabilities		
Change in Prepaid Items	45,019	(84,701)
Change in Accounts Payable	(9,579)	(26,421)
Change in Accrued Wages and Benefits	(15,468)	(83,494)
	<hr/>	<hr/>
Total Adjustments	48,936	(157,108)
	<hr/>	<hr/>
<i>Net Cash Used by Operating Activities</i>	(400,660)	(356,945)
	<hr/> <hr/>	<hr/> <hr/>

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, 2010**

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, 2010. 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 instructional/support facility staffed by 17 non-certified employees and 12 certificated full time teaching personnel who provide services to 226 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.

**P.A.C.E. HIGH SCHOOL
HAMILTON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

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

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.

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.

**P.A.C.E. HIGH SCHOOL
HAMILTON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

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

Prepaid Items

Payments made to vendors or employees for services that will benefit periods beyond June 30, 2010, 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.

**P.A.C.E. HIGH SCHOOL
HAMILTON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

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

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consists 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.

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.

**P.A.C.E. HIGH SCHOOL
HAMILTON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

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, 2010, the School's deposits were \$269,612, and the bank balances \$271,547. 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.

**P.A.C.E. HIGH SCHOOL
HAMILTON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2010:

	<u>Balance</u> <u>June 30, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2010</u>
<u>Business- Type Activity</u>				
Capital Assets Being Depreciated				
Computers	\$ 112,525			\$ 112,525
Less Accumulated Depreciation				
Computers	<u>\$ 83,561</u>	\$ 28,964		<u>\$ 112,525</u>
Total Accumulated Depreciation	<u>\$ 83,561</u>	\$ 28,964		<u>\$ -</u>
Total Capital Assets Being Depreciated	<u>\$ 28,964</u>	\$ 28,964		<u>\$ -</u>
Net				
Business - Type Activity, Capital Assets, Net	<u>\$ 28,964</u>	<u>\$ 28,964</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 2010, 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.

**P.A.C.E. HIGH SCHOOL
HAMILTON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

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 2010, 12.78 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, 2010, 2009 and 2008 were \$68,718, \$66,260, and \$80,718 respectively; 100 percent has been for fiscal years 2010, 2009 and 2008.

**P.A.C.E. HIGH SCHOOL
HAMILTON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(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.

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.

**P.A.C.E. HIGH SCHOOL
HAMILTON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

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

Funding Policy – For the fiscal year ended June 30, 2010, 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 2010, 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, 2010, 2009, and 2008 were \$78,343, \$93,024, and \$112,499 respectively; 100 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

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 6.2 percent of wages.

**P.A.C.E. HIGH SCHOOL
HAMILTON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(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 2010, .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 2010 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, 2010, 2009, and 2008 were \$27,169, \$33,851, and \$24,100 respectively.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2010, this actuarially required allocation was 0.76 percent of covered payroll. The School's contributions for Medicare Part B for the fiscal year ended June 30, 2010, was \$4,290; 100 percent has been contributed for fiscal year 2010.

**P.A.C.E. HIGH SCHOOL
HAMILTON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

NOTE 7 – POSTEMPLOYMENT BENEFITS (Continued)

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 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, 2010, 2009, 2008 were \$6,500, \$8,098, and \$8,036 respectively. 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

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 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, 2010.

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.

**P.A.C.E. HIGH SCHOOL
HAMILTON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

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, 2011. The base rent lease payments are \$13,750 a month. Lease expense for the fiscal year ended June 30, 2010 was \$165,000.

The School also leases land and building from an unrelated entity. The lease started in June, 2007 and expires in June, 2011 at which time the lease has an option for renewal for a term of 5 years at adjusting rates. The monthly lease payment is \$16,667. Rent expense for the year ended June 30, 2010 was \$200,000.

The School leases copier equipment from an unrelated entity at \$976.65 per month. The lease started in December 2009 and expires in 2013. Lease expense for the year ended June 2010 was \$7,813.

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

Years Ending <u>June 30</u>	<u>Facilities</u>	<u>Equipment</u>	<u>Total</u>
2011	\$ 374,000	\$ 11,724	\$ 385,724
2012	\$ -	\$ 11,724	\$ 11,724
2013	\$ -	\$ 2,931	\$ 2,931
 Total	 <u>\$ 374,000</u>	 <u>\$ 26,379</u>	 <u>\$ 400,379</u>

NOTE 10 – NOTES PAYABLE – RELATED PARTY

	<u>June 30</u> <u>2009</u>	<u>Issuance</u> <u>of Debt</u>	<u>Payments</u>	<u>June 30</u> <u>2010</u>
Notes Payable - Related Party	<u>\$480,681</u>	<u>0</u>	<u>\$(16,076)</u>	<u>\$464,605</u>

The School had an unsecured non-interest bearing Note Payable to the Superintendent at June 30, 2009. The School paid off this loan during fiscal year 2010. The School also has three unsecured, interest bearing notes payable to the Superintendent. As of June 30, 2010, there were no set payment terms. Payments are made based on available cash flows of the school. A summary of note activity follows:

**P.A.C.E. HIGH SCHOOL
HAMILTON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

NOTE 10 – NOTES PAYABLE – RELATED PARTY (Continued)

Description	Balance 7/1/2009	Additions	Deletions	Balance 6/30/2010	Interest Rate
Personal Loan from Superintendent	\$ 12,000	-	\$ (12,000)	\$ -	0%
Promissory Note - Chase Bank	\$ 230,920	-	\$ (1,999)	\$ 228,921	8.55%
Promissory Note - Advantage Bank	\$ 36,222	-	\$ (859)	\$ 35,363	5.25%
Promissory Note - Chase Bank Loan	\$ 201,539	-	\$ (1,218)	\$ 200,321	7.25%
		\$			
	<u>\$ 480,681</u>	<u>-</u>	<u>\$ (16,076)</u>	<u>\$ 464,605</u>	

NOTE 11 – PURCHASED SERVICES

For the year ended June 30, 2010, purchased service expenses were comprised of the following:

	2010
Instructional Services	40,197
Miscellaneous	12,388
Professional Development	69,049
Transportation	9,825
Psychological Testing	7,430
Professional & Technical	106,471
Legal and Professional	3,218
Printing and Reproduction	16,282
Travel	5,919
Postage	1,367
Accounting	23,153
Property Services	482,601
Cafeteria	<u>32,547</u>
TOTAL PURCHASED SERVICES	810,447

**P.A.C.E. HIGH SCHOOL
HAMILTON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

NOTE 12 – GOING CONCERN

For the year ended June 30, 2010, the school had an operating loss of (\$449,596) and an unrestricted net asset deficit of (\$199,810). Management has adopted a budget for the fiscal year ended 2010 and 2011 that will offset the net asset deficit and is projected to bring it to a positive position by FYE 2012.

NOTE 13 – COMPLIANCE

The School failed to maintain student attendance records in accordance with Ohio Revised Code Section 3314.17 (C).

**PACE HIGH SCHOOL
HAMILTON COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2010**

Federal Grantor/ Pass Through Grantor Program Title	Grant Year	Federal CFDA Number	Receipts	Disbursements
U.S. DEPARTMENT OF AGRICULTURE				
<i>Passed Through Ohio Department of Education:</i>				
Child Nutrition Cluster:				
National School Breakfast Program	2010	10.553	\$3,616	\$3,616
National School Lunch Program	2010	10.555	<u>16,068</u>	<u>16,068</u>
Total Child Nutrition Cluster			<u>19,684</u>	<u>19,684</u>
Total U.S. Department of Agriculture			<u>19,684</u>	<u>19,684</u>
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education:</i>				
Special Education Cluster:				
Special Education - Grants to States	2010	84.027	53,396	53,396
ARRA - Special Education - Grants to States	2010	84.391	<u>48,366</u>	<u>48,366</u>
Total Special Education Grants to States			101,762	101,762
Title I Grants to Local Educational Agencies	2010	84.010	121,261	121,279
Title I Grants to Local Educational Agencies	2009	84.010	55,056	-
Title I--School Improvement	2010	84.010	60,000	60,000
Title I--School Improvement	2009	84.377	30,000	-
ARRA - Title I Grants to Local Educational Agencies	2010	84.389	<u>74,938</u>	<u>74,938</u>
Total Title I Grants to Local Educational Agencies			341,255	256,217
Education Technology State Grants	2010	84.318	1,986	1,986
Safe and Drug-Free Schools and Communities	2010	84.186	1,975	1,975
Improving Teacher Quality State Grants	2010	84.367	8,972	8,972
ARRA - State Fiscal Stabilization Fund (SFSF) - Education	2010	84.394	<u>124,531</u>	<u>124,531</u>
Total U.S. Department of Education			<u>580,481</u>	<u>495,443</u>
TOTAL FEDERAL ASSISTANCE			<u>\$600,165</u>	<u>\$515,127</u>

The accompanying notes to this schedule are an integral part of this schedule.

**PACE HIGH SCHOOL
HAMILTON COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
JUNE 30, 2010**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) reports the Pace High School (the School's) federal award programs' receipts and disbursements. The schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

The School commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the School assumes it expends federal monies first.



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
1601 California Avenue
Cincinnati, Ohio 45237

To the Board of Directors:

We have audited the financial statements of the business-type activities of Pace High School, Hamilton County, Ohio (the School), as of and for the year ended June 30, 2010 and 2009, which collectively comprise the School's basic financial statements and have issued our report thereon dated March 24, 2011, wherein we qualified our opinion because we were unable to obtain sufficient evidence to support full-time equivalencies reported to the Ohio Department of Education. We also noted the School incurred an operating loss and negative assets balance. Except as discussed above, 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness and another deficiency we consider to be a significant deficiency.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2010-001 described in the accompanying schedule of findings and questioned costs to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2010-002 described in the accompanying schedule of findings and questioned costs to be a significant deficiency.

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 an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings and questioned costs as item 2010-001.

We also noted certain matters not requiring inclusion in this report that we reported to the School's management in a separate letter dated March 24, 2011.

The School's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the School's responses and, accordingly, we express no opinion on them.

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



Dave Yost
Auditor of State

March 24, 2011



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Pace High School
Hamilton County
1601 California Avenue
Cincinnati, Ohio 45237

To the Board of Directors:

Compliance

We have audited the compliance of Pace High School, Hamilton County, Ohio (the School), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of Pace High School's major federal programs for the year ended June 30, 2010. The summary of auditor's results section of the accompanying schedule of findings and questioned costs identifies the School's major federal programs. The School's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the School's compliance based on our audit.

Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School's compliance with those requirements.

As described in Finding 2010-003, we were unable to obtain sufficient documentation supporting the School's compliance with the requirements of State Fiscal Stabilization Fund regarding Eligibility nor were we able to satisfy ourselves as to the School's compliance with this requirement by other auditing procedures.

In our opinion, except for the effects of this noncompliance, if any, as we might have determined had we been able to examine sufficient evidence regarding the School's compliance with State Fiscal Stabilization Fund's Eligibility requirements, the School complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The School's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with the requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the School's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2010-003 to be a material weakness.

The School's response to the finding we identified is described in the accompanying schedule of findings and questioned costs. We did not audit the School's response and, accordingly, we express no opinion on it.

We noted matters involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the School's management in a separate letter dated March 24, 2011.

We intend this report solely for the information and use of the audit committee, management, Board of Education, the Community School's sponsor, others within the entity, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Dave Yost
Auditor of State

March 24, 2011

PACE HIGH SCHOOL
HAMILTON COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2010

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Qualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	Yes
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Qualified - CFDA #84.394: ARRA – State Fiscal Stabilization Fund-Education Unqualified – <ul style="list-style-type: none"> • CFDA #84.010: Title I • CFDA #84.377: Title I-School Improvement • CFDA #84.389: ARRA – Title I
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	Yes
(d)(1)(vii)	Major Programs (list):	CFDA #84.394: ARRA – State Fiscal Stabilization Fund-Education CFDA #84.010: Title I CFDA #84.377: Title I-School Improvement CFDA #84.389: ARRA – Title I
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2010-001

Noncompliance and Material Weakness

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. Ohio Rev. Code Section 3301.0714(B)(1)(g) requires the following data must be reported to the Ohio Department of Education:

- Attendance rates and the average daily attendance for the year

The Treasurer was responsible for ensuring the aforementioned student information was reported to the Ohio Department of Education's (ODE's) School Options Enrollment System (SOES) and Education Management Information System (EMIS) databases. For the period July 1, 2009 through June 30, 2010, the School failed to maintain attendance records for all students.

Because of the lack of documentation, we were unable to ascertain an accurate average daily membership count, as no attendance records were provided for audit.

Since most State and Federal grants and entitlements are based on student attendance and socioeconomic status of students, the accuracy of funding received could not be ascertained. For the School this resulted in \$1,626,803 of FY2010 foundation receipts, which could not be verified that resulted in a qualification of opinion.

We recommend the School maintain proper supporting documentation for student attendance records. See Finding 2010-003 for more information.

This matter will be referred to the Ohio Department of Education.

Officials' Response:

The Ohio Department of Education completed an onsite review of the 2009-2010 attendance records, posed questions at that time, and these were all answered to their satisfaction with monthly adjustments made throughout the 2010-11 school year. Further coordination with ODE will occur to ensure that the reconciliation of student attendance and enrollment data for the year is satisfactory.

FINDING NUMBER 2010-002

Significant Deficiency

The management of each community school is responsible for the design and implementation of any internal control process that provides reasonable assurance of the integrity of its financial reporting, the safeguarding of assets, the efficiency and effectiveness of its operations, and its compliance with applicable laws, regulations and contracts.

The School's financial report for the fiscal year ended June 30, 2010 contained errors as follows:

- The School understated outstanding debt by \$99,461. Likewise, the School overstated total net assets by \$99,461.
- The School did not properly disclose the future minimum lease payments in the Operating Lease Note.

**FINDING NUMBER 2010-002
 (Continued)**

The School made adjustments to the accompanying financial statements and notes for the above items.

The School should implement an effective monitoring control system to assist management in detecting material misstatements in financial or other information. Monitoring controls are comprised of regular management and supervisory activities established to oversee whether management’s objectives are being achieved, covering operational and legal compliance, as well as financial control objectives. Effective monitoring controls should identify unexpected results or exceptions (including significant compliance exceptions), investigate underlying causes, and take corrective action.

Monitoring controls should assist management in detecting material misstatements in financial or other information and can include:

Regular review of financial report summaries of sufficient detail (monthly detail revenue and expenditure reports) with independently accumulated information (budgets, past performance, etc.).

- Review of revenue/expenditures
- Identification of unusual fluctuations
- Review of monthly reconciliations

Officials’ Response:

The School will implement a monitoring control system to assist in detecting misstatements in financial or other information. Monitoring controls will consist of a review of financial reports by a third party to ensure that financial control objectives are met.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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FINDING NUMBER 2010-003

Noncompliance/Questioned Cost/Material Weakness - Eligibility

CFDA Title and Number	84.394 ARRA – State Fiscal Stabilization Fund-Education
Federal Award Number/Year	2010
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

We were unable to assure ourselves about the existence or accuracy of the School’s “full time equivalencies” (FTE) reported to the Ohio Department of Education (ODE) due to the lack of daily attendance records available for audit. FTE drives State Foundation and SFSF funding to charter schools in Ohio. Therefore, we are questioning the School’s total SFSF expenditures of \$124,531 for fiscal year 2010.

American Recovery and Reinvestment Act Section 14002, State Uses of Funds, requires the Governor shall first use the Education funds described in paragraph (1) to provide the amount of funds, through the State’s primary elementary and secondary funding formulae that is needed to —

FINDING NUMBER 2010-003
(Continued)

- Restore, in each of fiscal years 2009, 2010, and 2011, the level of State support provided through such formulae to the greater of the fiscal year 2008 or fiscal year 2009 level; and
- Where applicable, allow existing State formulae increases to support elementary and secondary education for fiscal years 2010 and 2011 to be implemented and allow funding for phasing in State equity and adequacy adjustments, if such increases were enacted pursuant to State law prior to October 1, 2008.

SFSF Education Stabilization funds were provided to local educational agencies, including charter schools, using the State's existing Foundation formula. **Ohio Rev. Code, Section 3314.08**, provides the basis for which charter schools are funded in the State Foundation system. Unlike city, local, exempted village and joint vocational school districts, charter schools have no tax base from which to draw funds for buildings and investment in infrastructure. As a result, ODE calculates charter school funding based on student daily attendance information reported by charter schools in the School Options Enrollment System (SOES).

Ohio Rev. Code, Section 3314.17(A), requires each community school to participate in the statewide education management information system established under Ohio Rev. Code section 3301.0714. All provisions of that section and the rules adopted under that section apply to each community school as if it were a school district, except as modified for community schools under division (B) of this section.

Charter schools convert student daily attendance information into FTE's based on the number of instructional hours or days a student was enrolled and attended the school divided by annual membership units (the number of hours or days in the school year) contained in the school profile record. The School did not maintain student daily attendance records to support FTE's reported to ODE during fiscal year 2010. See Finding 2010-001 for further information.

Officials' Response:

The Ohio Department of Education completed an onsite review of the 2009-2010 attendance records, posed questions at that time, and these were all answered to their satisfaction with monthly adjustments made throughout the 2010-11 school year. Further coordination with ODE will occur to ensure that the reconciliation of student attendance and enrollment data for the year is satisfactory. Reconciliation data will be provided to federal grants offices.

**PACE HIGH SCHOOL
HAMILTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2010**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2009-001	Finding for recovery for student funding	No	Not corrected; the June 20, 2009 and June 30, 2010 audits were conducted concurrently
2009-002	Failure to properly report financial activity	No	Not corrected; the June 20, 2009 and June 30, 2010 audits were conducted concurrently

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Pace High School
Hamilton County
1601 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, Hamilton County, Ohio (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. We noted the Board did not adopt an anti-harassment policy.
2. The following requirements from Ohio Rev. Code Section 3313.666(B) were not adopted:
 - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
 - (2) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666;
 - (3) A procedure for reporting prohibited incidents;
 - (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
 - (5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;

- (6) A procedure for documenting any prohibited incident that is reported;
- (7) A procedure for responding to and investigating any reported incident;
- (8) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
- (9) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;
- (10) A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

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.



Dave Yost
Auditor of State

March 24, 2011



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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
APRIL 12, 2011**