SOUTH SCIOTO ACADEMY
FRANKLIN COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2011

SOUTH SCIOTO ACADEMY
FRANKLIN COUNTY

TABLE OF CONTENTS

THIS PAGE INTENTIONALLY LEFT BLANK

INDEPENDENT ACCOUNTANTS' REPORT

South Scioto Academy
Franklin County
707 East Jenkins Avenue
Columbus, Ohio 43207

To the Board of Directors:

We have audited the accompanying financial statements of South Scioto Academy, Franklin County, Ohio, (the Academy), as of and for the year ended June 30, 2011, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the of South Scioto Academy, Franklin County, Ohio, as of June 30, 2011, and the change in financial position and its cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2011, on our consideration of the Academy'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.

Dave Yost

Dave Yost
Auditor of State

December 12, 2011

The management's discussion and analysis of South Scioto Academy's financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the academy's financial performance as a whole; readers should review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy'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 its Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Government*, issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

- In total, net assets (surplus) increased $13,220, which represents a 7% increase in net assets from 2010.
- Total assets decreased $112,987, which is a 24% decrease from 2010. This was due primarily to decreases in cash, and in a scheduled partial refund of security deposit from the landlord.
- Liabilities decreased $126,207, which represents a 45% decrease from 2010. This is mainly the result of a reduction in the liability to the management company.

Using this Annual 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.

Statement of Net Assets

The statement of net assets answers the question, "How did we do financially during 2011?" This statement 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 the account all revenues and expenses during the year, regardless of when cash is received or paid.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Table I provides a summary of the Academy's net assets for fiscal years 2011 and 2010:

TABLE I

	Governmental Activities		
	June 30		
	2011	2010	Change
Assets			
Current Assets	$ 221,020	$ 320,097	$ (99,077)
Capital Assets - Net	88,297	82,207	6,090
Other Non-Current Assets	50,000	70,000	(20,000)
Total assets	359,317	472,304	$ (112,987)
Liabilities			
Current Liabilities	106,374	212,581	(106,207)
Non-current Liabilities	50,000	70,000	(20,000)
Total liabilities	156,374	282,581	(126,207)
Net Assets (Deficit)			
Invested in capital assets	88,297	82,207	6,090
Restricted	40,395	43,451	(3,056)
Unrestricted	74,251	64,065	10,186
Total net assets	$ 202,943	$ 189,723	$ 13,220

Total net assets for the Academy increased $13,220, due to the net effect of a large reduction in both cash and liabilities. Cash decreased by $87,410. Contracts Payable decreased by $104,025 because there were no year-end fees assessed at the end of 2011.

Table 2 shows the changes in net assets for fiscal years 2011 and 2010, as well as a listing of revenues and expenses.

TABLE 2

	Governmental Activities		
	June 30		
	2011	2010	Change
Operating Revenues			
Foundation Payments	$ 939,771	$ 1,104,330	$ (164,559)
Other	47	1,569	(1,522)
Total Operating Revenues	939,818	1,105,899	(166,081)
Operating Expenses			
Purchased Services	1,283,206	1,325,885	(42,679)
Materials and Supplies	62,582	45,137	17,445
Depreciation	29,066	41,903	(12,837)
Other Expenses	54,492	37,502	16,990
Total Operating Expenses	1,429,346	1,450,427	(21,081)
Operating Loss	(489,528)	(344,527)	(145,001)
Nonoperating Revenues and Expenses			
Federal Grants	489,836	448,411	41,425
State Grants	7,602	7,720	(118)
Contributions	4,454	0	4,454
Other Revenues	9,407	21	9,386
Refund of Prior Year Federal Funds	(1,305)	0	(1,305)
Interest	(7,246)	(32,868)	25,622
Total Nonoperating Revenues and Expenses	502,748	423,284	79,464
Change in Net Assets	13,220	78,757	(65,537)
Net Assets Beginning of Year	189,723	110,966	78,757
Net Assets End of Year	$ 202,943	$ 189,723	$ 13,220

Net assets increased $13,220. There was a decrease in revenue of $110,934 and decrease in expenses of $45,398. The decrease in revenues was primarily due to a decrease in Foundation payments resulting from a lower student count. The decrease in expenses was primarily due to lower management fees.

Capital Assets

At the end of fiscal year 2011, the Academy had $88,297 invested in furniture, fixtures, and equipment (net of depreciation). Table 3 shows capital assets (net of depreciation) for the fiscal years 2011 and 2010.

TABLE 3

	2011	2010
Furniture, fixtures and equipment	$ 88,297	$ 82,207

For more information on capital assets, see Note 5 to the basic financial statements.

Current Financial Issues

South Scioto Academy was formed in 2006 under a contract with the Educational Service Center of Franklin County. During the 2010-2011 school year there were 148 students enrolled in the Academy. The Academy receives its finances mostly from state aid. Foundation payments for fiscal year 2011 amounted to $939,771.

Contacting the School's Financial Management

The financial report is designed to provide our citizens with a general overview of the Academy's finances and to show the Academy's accountability for the funds it receives. If you have questions about this report or need additional information, contact Don Ash, Fiscal Officer of South Scioto Academy, 4660 S. Hagadorn Road, Suite 500, East Lansing, Michigan 48823 or e-mail at don.ash@leonagroup.com.

SOUTH SCIOTO ACADEMY
FRANKLIN COUNTY

STATEMENT OF NET ASSETS
JUNE 30, 2011

Assets		
Current Assets:		
Cash and Cash Equivalents	$	54,717
Accounts Receivable		3,061
Intergovernmental Receivables		143,200
Prepaid Items		42
Deposits (to be refunded within one year)		20,000
Total Current Assets		221,020
Non-Current Assets:		
Capital Assets:		
Depreciable Capital Assets, Net		88,297
Deposits		50,000
Total Non-Current Assets		138,297
Total Assets		359,317
Liabilities		
Current Liabilities:		
Accounts Payable - Related Parties		82,372
Accounts Payable - Trade		4,002
Total Current Liabilities		86,374
Non-Current Liabilities:		
Due Within One Year		20,000
Due In More Than One Year		50,000
Total Non-Current Liabilities		70,000
Total Liabilities		156,374
Net Assets		
Invested in Capital Assets, Net of Related Debt		88,297
Restricted		40,395
Unrestricted		74,251
Total Net Assets	$	202,943

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

SOUTH SCIOTO ACADEMY
FRANKLIN COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Operating Revenues	
Foundation Payments	$ 939,771
Other Revenues	47
Total Operating Revenues	939,818
Operating Expenses	
Purchased Services (Note 10)	1,283,206
Materials and Supplies	62,582
Depreciation	29,066
Other	54,492
Total Operating Expenses	1,429,346
Operating Loss	(489,528)
Non-Operating Revenues and Expenses	
Federal Grants	489,836
State Grants	7,602
Refund of Prior Year Federal Funds	(1,305)
Contributions and Donations	4,454
Other Non-Operating Revenue	9,407
Interest and Fiscal Charges	(7,246)
Total Non-Operating Revenues and Expenses	502,748
Change in Net Assets	13,220
Net Assets Beginning of Year	189,723
Net Assets End of Year	$ 202,943

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Increase (Decrease) in Cash and Cash Equivalents:	
Cash Flows from Operating Activities:	
Cash Received from State of Ohio	$ 939,771
Cash Received from Other Operating Revenues	20,047
Cash Payments for Purchased Services	(1,374,649)
Cash Payments for General Materials and Supplies	(65,608)
Cash Payments for Other Operating Expenses	(30,230)
Net Cash Used for Operating Activities	(510,669)
Cash Flows from Noncapital Financing Activities:	
Federal Grants Received	494,865
State Grants Received	7,602
Refund of Prior Year Federal Funds	(1,305)
Principal Payments	(20,000)
Interest Payments	(36,607)
Contributions and Donations	4,454
Cash Received from Other Non-Operating Revenues	9,407
Net Cash Provided by Noncapital Financing Activities	458,416
Cash Flows from Capital and Related Financing Activities:	
Payments for Capital Acquisitions	(35,157)
Net Cash Used for Capital and Related Financing Activities	(35,157)
Net Decrease in Cash and Cash Equivalents	(87,410)
Cash and Cash Equivalents at Beginning of Year	142,127
Cash and Cash Equivalents at End of Year	$ 54,717

(Continued)

SOUTH SCIOTO ACADEMY
FRANKLIN COUNTY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)

Reconciliation of Operating Loss to Net Cash Used by Operating Activities:		
Operating Loss	$	(489,528)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities		
Depreciation		29,066
Changes in Assets and Liabilities:		
(Increase)/Decrease in Accounts Receivable		(3,061)
(Increase)/Decrease in Prepaid Items		10,977
(Increase)/Decrease in Deposits		20,000
Increase/(Decrease) in Accounts Payable		(17,351)
Increase/(Decrease) in Accounts Payable - related parties		(60,370)
Increase/(Decrease) in Intergovernmental Payable		(402)
Total Adjustments		(21,141)
Net Cash Used by Operating Activities	$	(510,669)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

South Scioto Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy's mission is to provide an atmosphere where students will develop a thirst for learning, creative expression and awareness of new horizons. As a family of learners, students and staff exhibit depth of understanding, acceptance of others, personal integrity and responsibility, and a willingness to exercise leadership in their educational and social interactions. Staff, students and their families are committed to facing the challenges of the new century, believing that there is no problem too complex nor goal too lofty that cannot be mastered. The Academy, 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 Academy may acquire facilities as needed and contract for any services necessary for the operation of the Academy.

The Academy was approved for operation under a contract with the Educational Service Center of Franklin County (the Sponsor) for a period of five years commencing March 15, 2006. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

Upon the expiration of the contract, the Academy is opting to contract with a new sponsor, the University of Toledo, for a five year period commencing July 1, 2011.

The Academy operates under the direction of a five member Governing Board. The Governing Board 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 Governing Board controls the Academy's instructional/support facility staffed by six non-certificated personnel and eight certificated teaching personnel who provide services to 148 students.

The Governing Board has entered into a management contract with The Leona Group, LLC (TLG), a for-profit limited liability corporation, for management services and operation of its school. TLG operates the Academy's instructional/support facility, is the employer of record for all personnel and supervises and implements the curriculum. In exchange for its services, TLG receives a capitation fee and year-end fee. (See Note 13).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles 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 Academy also applies Financial Accounting Standards Board statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the Academy's accounting policies are described below.

A. Basis of Presentation

The Academy's basic financial statements consist of a statement of net assets, a statement of revenue, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. 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 Academy finances and meets the cash flow needs of its enterprise activities.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the accrual basis of accounting.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non-exchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

Expenses are recognized at the time they are incurred.

D. 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 Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does prescribe an annual budget requirement in addition to preparing a 5-year forecast which is to be updated on an annual basis.

E. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of $1,000 for furniture and equipment, library books, land, and buildings, or any one item costing under $1,000 alone but purchased in a group for over $2,500. Software costing more than $10,000 per application is also capitalized. The Academy does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Capital Assets (Continued)

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Furniture, Fixtures and Equipment	7 years
EDP Equipment and Software	3 years
Non-EDP Equipment	6 years

F. Operating Revenues and Expenses

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

G. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

H. Security Deposit

The Academy entered into a lease for the use of the building for the administration and instruction of the Academy. Based on the lease agreement, a security deposit was required to be paid at the signing of the agreement. This amount, totaling $150,000 less four annual $20,000 refunds for a net of $70,000, is held by the lessor. (See Note 11)

3. DEPOSITS

The Academy has designated one bank for the deposit of its funds. The Academy's deposits consist solely of checking and/or savings accounts at a local bank; therefore, the Academy has not adopted a formal investment policy. The Academy's cash is subject to custodial credit risk.

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy's deposit policy requires that financial institutions be evaluated and only those with an acceptable risk level for custodial risk are used for the Academy's deposits.

4. RECEIVABLES

Receivables at June 30, 2011, consisted of intergovernmental grants. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of receivables follows:

Intergovernmental Receivables	Amounts
Title I	$ 60,625
Title I ARRA	10,020
Title IIa	979
Race to the Top	30,960
IDEA Part B ARRA	3,432
National School Lunch Program - Breakfast	2,856
National School Lunch Program - Lunch	5,851
IDEA Part B	27,200
STRS/SERS overcollected	1,277
Total Intergovernmental Receivables	$ 143,200

Accounts Receivable:	Amounts
eRate Reimbursement	$ 3,061
Total Accounts Receivable	$ 3,061

5. CAPITAL ASSETS

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

	Balance 6/30/10	Additions	Deletions	Balance 6/30/11
Business-Type Activity				
Capital Assets Being Depreciated				
Furniture, Fixtures, and Equipment	$ 120,063	$ 32,622	$ -	$ 152,685
Leasehold Improvements	40,645	2,535	-	43,180
Library	20,905	0	-	20,905
Total Capital Assets Being Depreciated	181,613	35,157	-	216,770
Less Accumulated Depreciation:				
Furniture, Fixtures, and Equipment	(70,613)	(16,981)	-	(87,594)
Leasehold Improvements	(24,730)	(8,603)	-	(33,333)
Library	(4,064)	(3,483)	-	(7,546)
Total Accumulated Depreciation	(99,407)	(29,066)	-	(128,473)
Total Capital Assets Being Depreciated, Net	$ 82,207	$ 6,091	$ -	$ 88,297

6. RISK MANAGEMENT

A. Property and Liability

The Academy 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. During fiscal year 2011, the Academy contracted with Philadelphia Insurance Company for general liability, property insurance and educational errors and omissions insurance.

Coverage is as follows:

Educator's Legal Liability:	
Part 1, D&O Liability, each claim	$1,000,000
Part 2, Employment Practices, each claim	1,000,000
Aggregate, All Parts	2,000,000
General Liability:	
Per occurrence	1,000,000
Aggregate	2,000,000
Personal and ADV Injury	1,000,000
Automobile - Hired and Not Owned CSL	1,000,000
Property:	
BI	100,000
Umbrella	9,000,000

B. Workers' Compensation

The Academy pays the State Worker's 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.

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan administered by the School Employees Retirement Board. 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.

7. DEFINED BENEFIT PENSION PLANS (Continued)

A. School Employees Retirement System (Continued)

For the fiscal year ended June 30, 2011, plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2011, 11.81 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 Academy's required contributions for pension obligations to SERS for the fiscal year ended June 30, 2011, 2010, and 2009, were $10,772, $15,090, and $9,744 respectively; 100 percent has been contributed for fiscal years 2011, 2010, and 2009.

B. State Teachers Retirement System of Ohio

The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a publicly available financial report that includes financial statement and required supplementary information. The report may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371.

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 multiplied by a percentage that varies based on years of service, or on 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 DC 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 Plan and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC Plan or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001.

A DB Plan 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 member's designated beneficiary is entitled to receive the member's account balance.

7. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System of Ohio (Continued)

For the fiscal year ended June 30, 2011, plan members were required to contribute 10 percent of their annual covered salaries. The Academy 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.

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal year ended June 30, 2011, 2010, and 2009 were $44,888, $51,256, and $40,992 respectively; 100 percent has been contributed for fiscal years 2011, 2010, and 2009.

8. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

The Academy 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, OH 43215-3746.

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 2011, 1.43 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount. The surcharge for fiscal year 2011 was $1,783.

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 Academy's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were $1,304, $543, and $4,459 respectively. 100 percent has been contributed for fiscal years 2011, 2010, and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2011, this actuarially required allocation was 0.76 percent of the covered payroll. The Academy's contributions for Medicare Part B for the fiscal year ended June 30, 2011 were $693. 100 percent has been contributed for fiscal year 2011.

8. POSTEMPLOYMENT BENEFITS (Continued)

B. State Teachers Retirement System of Ohio

The Academy 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.

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 2009, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Academy's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 respectively were $3,453, $3,943, and $3,153 respectively. 100 Percent has been contributed for fiscal years 2011, 2010, and 2009.

9. CONTINGENCIES

A. Grants

The Academy 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 funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2011.

B. Ohio Department of Education Enrollment Review

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. The conclusion of this review could result in state funding being adjusted. A review conducted by the Ohio Department of Education did not reveal any discrepancies for the 2011 fiscal year.

10. PURCHASED SERVICE EXPENSES

For the period ended June 30, 2011, purchased service expenses were payments for services rendered by various vendors, as follows:

Salaries	$ 445,593
Fringe Benefits	155,010
Repairs and maintenance	3,390
Legal	16,550
Advertising	5,018
Educational Service Center of Franklin County	18,795
The Leona Group, LLC.	176,713
Cleaning Services	22,978
Communications	11,376
Food Services	75,835
Other professional services	119,015
Other rentals and leases	7,932
Building lease agreements	225,000
Total Purchased Services	$ 1,283,206

11. OPERATING LEASES

The Academy has entered into a lease for the period July 1, 2006 through June 30, 2011 with TG707, Inc. Payments made totaled $225,000 for the fiscal period.

The lease was renewed for the period July 1, 2011 through July 31, 2012 with TG707, Inc. The base rent is $160,000 with provisions for additional rent based on student counts. The Academy has the option to extend the lease for 4 one-year terms.

A security deposit in the amount of $150,000 less annual refunds in the amount of $20,000 is held by the landlord. The amount being held at June 30, 2011 was $70,000.

The following is a schedule of the future minimum payments required under the operating leases as of June 30, 2011.

Fiscal Year Ending June 30,	Facility Lease
2012	$ 160,000
Total minimum lease payments	$ 160,000

12. NOTES PAYABLE

Debt Activity during fiscal year 2011 was as follows:

	Balance at 07/01/10	Additions	Reductions	Balance at 06/30/11
School Facilities Loan - The Leona Group	$ 90,000	$ -	$ 20,000	$ 70,000
Total	$ 90,000	$ -	$ 20,000	$ 70,000

The Academy borrowed $150,000 from The Leona Group to pay the security deposit on the rental property they occupy (see note 11). Annual refunds against the security deposit are remitted to The Leona Group and applied to the outstanding note.

13. RELATED PARTY TRANSACTIONS/MANAGEMENT AGREEMENT

The Academy entered into a five-year contract, effective June 1, 2006 through June 30, 2011, with The Leona Group, LLC for educational management services for all of the management, operation, administration, and education at the Academy. In exchange for its services, TLG receives a capitation fee of 12% of the per pupil expenditures and a Year-End fee of 50% of the audited financial statement excess of revenues over expenses, if any. The amount paid to TLG for fiscal period 2011 totaled $176,713. Terms of the contracts require TLG to provide the following:

A. implementation and administration of the Educational Program;

B. management of all personnel functions, including professional development;

C. operation of the school building and the installation of technology integral to school design;

D. all aspects of the business administration of the Academy;

E. the provision of food service for the Academy; and

F. any other function necessary or expedient for the administration of the Academy.

Also, there are expenses that are billed to the Academy based on the actual costs incurred for the Academy by The Leona Group, LLC. These expenses include rent, salaries of The Leona Group, LLC. employees working at the Academy, and other costs related to providing educational and administrative services.

13. RELATED PARTY TRANSACTIONS/MANAGEMENT AGREEMENT (Continued)

For the year ended June 30, 2011, those expenses are as follows:

Salaries and Wages	$	445,593
Benefits		155,010
Professional and Technical Services		23,151
Communications		714
Contracted Craft or Trade Services		929
Other Supplies		5,194
Other Direct Costs		767
Total Expenses	$	631,358

At June 30, 2011, the Academy had payables to The Leona Group, LLC in the amount of $82,372. The following is a schedule of payables to The Leona Group, LLC:

	Amount
Accrued Wages Payable	36,561
Contracts Payable	45,811
Total Expenses	$ 82,372

14. SUBSEQUENT EVENTS

The Academy entered into a loan with RBS Citizens NA Bank for $175,000 on July 19, 2011. The note will be used to pay for general operations of the Academy. The note has a floating interest rate equal to the Prime Rate and has a maturity date of June 30, 2012.

The Management Agreement between the Academy and the Management Company expired at June 30, 2011, and as of this writing is operating on an automatic three-year extension.

15. MANAGEMENT'S PLAN

For fiscal year 2011, the Academy had a small increase in net assets, and a cash balance as of December 2011 of $238,544.

The Academy's student enrollment, in December 2011, of 139 students is less than anticipated. Management has budgeted for 175 students in the 2011-12 school year, but as of December 2011 has not achieved that number. All Stakeholders are participating in the marketing effort and increasing enrollment. The school board has made it a priority to increase enrollment, and as a result, they have put incentives in place for parents and staff for the remainder of the year.

Management believes that enrollment will grow through extensive marketing via print, radio and mailings to ensure that the Academy maintains a positive net asset situation. Management has been successful in increasing enrollment at other Ohio community schools and we will make every effort to maintain enrollment and increase the cash balance.

THIS PAGE INTENTIONALLY LEFT BLANK

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

South Scioto Academy
Franklin County
707 East Jenkins Avenue
Columbus, Ohio 43207

To the Board of Directors:

We have audited the financial statements of South Scioto Academy, Franklin County, Ohio, (the Academy) as of and for the year ended June 30, 2011, and have issued our report thereon dated December 12, 2011. 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 Academy'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 Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Academy's internal control over financial reporting.

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

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

Compliance and Other Matters

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

88 East Broad Street, Tenth Floor, Columbus, Ohio 43215-3506
Phone: 614-466-3402 or 800-443-9275 Fax: 614-728-7199
www.auditor.state.oh.us

We intend this report solely for the information and use of management, Board of Directors and the Central Ohio Educational Service Center. We intend it for no one other than these specified parties.

Dave Yost

Dave Yost
Auditor of State

December 12, 2011

Dave Yost • Auditor of State

SOUTH SCIOTO ACADEMY

FRANKLIN 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 2, 2012

88 East Broad Street, Fifth Floor, Columbus, Ohio 43215-3506
Phone: 614-466-4514 or 800-282-0370 Fax: 614-466-4490
www.auditor.state.oh.us