SOUTH SCIOTO ACADEMY
FRANKLIN COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2012

Dave Yost • Auditor of State

SOUTH SCIOTO ACADEMY
FRANKLIN COUNTY

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Dave Yost • Auditor of State

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 basic financial statements of South Scioto Academy, Franklin County, Ohio, (the Academy), as of and for the year ended June 30, 2012, 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 South Scioto Academy, Franklin County, Ohio, as of June 30, 2012, and the changes in its 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 February 8, 2013, 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.

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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
Auditor of State

February 8, 2013

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, 2012. 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 decreased $7,702, which represents a 4% decrease in net assets from 2011.

- Total assets decreased $16,977, which is a 5% decrease from 2011. This was due primarily to a decrease in intergovernmental receivables due to reduced accruals of federal funds due to the Academy.

- Liabilities decreased $9,275, which represents a 6% decrease from 2011. 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 2012?" 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.

Table I provides a summary of the Academy's net assets for fiscal years 2012 and 2011:

TABLE I	Governmental Activities		
	June 30		
	2012	2011	Change
Assets			
Current Assets	$ 254,912	$ 221,020	$ 33,892
Capital Assets - Net	57,428	88,297	(30,869)
Other Non-Current Assets	30,000	50,000	(20,000)
Total assets	342,340	359,317	$ (16,977)
Liabilities			
Current Liabilities	117,099	106,374	10,725
Non-current Liabilities	30,000	50,000	(20,000)
Total liabilities	147,099	156,374	(9,275)
Net Assets (Deficit)			
Invested in capital assets	57,428	88,297	(30,869)
Unrestricted	137,813	114,646	23,167
Total net assets	$ 195,241	$ 202,943	$ (7,702)

Total net assets for the Academy decreased $7,702. The greatest factor appears to be reduced accruals of federal funds at year end. Cash increased by $34,499. Accounts Payable decreased by $24,824, mostly due to a reduced amount of management fees payable at year end.

Table 2 shows the changes in net assets for fiscal years 2012 and 2011, as well as a listing of revenues and expenses.

TABLE 2	Governmental Activities		
	June 30		
	2012	2011	Change
Operating Revenues			
Foundation Payments	$ 940,311	$ 939,771	$ 540
Other	13,547	47	13,500
Total Operating Revenues	953,858	939,818	14,040
Operating Expenses			
Purchased Services	1,110,653	1,283,206	(172,553)
Materials and Supplies	28,559	62,582	(34,023)
Depreciation	37,357	29,066	8,291
Other Expenses	40,630	54,492	(13,862)
Total Operating Expenses	1,217,199	1,429,346	(212,147)
Operating Loss	(263,341)	(489,528)	226,187
Non-Operating Revenues and Expenses			
Federal Grants	256,752	489,836	(233,084)
State Grants	1,828	7,602	(5,774)
Contributions	194	4,454	(4,260)
Other Revenues		9,407	(9,407)
Refund of Prior Year Federal Funds	(61)	(1,305)	1,244
Interest	(3,074)	(7,246)	4,172
Total Non-Operating Revenues and Expenses	255,639	502,748	(247,109)
Increase (decrease) in Net Assets	(7,702)	13,220	(20,922)
Net Assets Beginning of Year	202,943	189,723	13,220
Net Assets End of Year	$ 195,241	$ 202,943	$ (7,702)

Net assets decreased $7,702. Reductions in revenues and expenditures were nearly across the board, much of it due to reduced spending and collection of Federal funds.

Capital Assets

At the end of fiscal year 2012, the Academy had $57,428 invested in furniture, fixtures, and equipment (net of depreciation). Table 3 shows capital assets (net of depreciation) for the fiscal years 2012 and 2011.

TABLE 3

	2012	2011
Furniture, fixtures and equipment	$ 57,428	$ 88,297

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 2011-2012 school year there were 135 students enrolled in the Academy. The Academy receives its finances mostly from state aid. Foundation payments for fiscal year 2012 amounted to $940,311.

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, 2012

Assets	
Current Assets:	
Cash and Cash Equivalents	$ 89,216
Accounts Receivable	8,989
Intergovernmental Receivables	116,707
Deposits (to be refunded within one year)	40,000
Total Current Assets	254,912
Non-Current Assets:	
Capital Assets:	
Depreciable Capital Assets, Net	57,428
Deposits	30,000
Total Non-Current Assets	87,428
Total Assets	342,340
Liabilities	
Current Liabilities:	
Accounts Payable - Related Parties	58,168
Accounts Payable - Trade	3,191
Intergovernmental Payable	15,740
Total Current Liabilities	77,099
Non-Current Liabilities:	
Due Within One Year	40,000
Due In More Than One Year	30,000
Total Non-Current Liabilities	70,000
Total Liabilities	147,099
Net Assets	
Invested in Capital Assets, Net of Related Debt	57,428
Unrestricted	137,813
Total Net Assets	$ 195,241

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, 2012

Operating Revenues	
Foundation Payments	$ 940,311
Other Revenues	13,547
Total Operating Revenues	953,858
Operating Expenses	
Purchased Services (Note 10)	1,110,653
Materials and Supplies	28,559
Depreciation	37,357
Other	40,630
Total Operating Expenses	1,217,199
Operating Loss	(263,341)
Non-Operating Revenues and Expenses	
Federal Grants	256,752
State Grants	1,828
Refund of Prior Year Federal Funds	(61)
Contributions and Donations	194
Interest and Fiscal Charges	(3,074)
Total Non-Operating Revenues and Expenses	255,639
Change in Net Assets	(7,702)
Net Assets Beginning of Year	202,943
Net Assets End of Year	$ 195,241

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

SOUTH SCIOTO ACADEMY
FRANKLIN COUNTY

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

Increase (Decrease) in Cash and Cash Equivalents:	
Cash Flows from Operating Activities:	
Cash Received from State of Ohio	$ 956,051
Cash Received from Other Operating Revenues	10,570
Cash Payments for Purchased Services	(1,125,406)
Cash Payments for General Materials and Supplies	(28,375)
Cash Payments for Other Operating Expenses	(53,325)
Net Cash Used for Operating Activities	(240,485)
Cash Flows from Noncapital Financing Activities:	
Federal Grants Received	284,945
State Grants Received	1,828
Proceeds from Notes	175,000
Refund of Prior Year Federal Funds	(61)
Principal Payments	(175,000)
Interest Payments	(5,434)
Contributions and Donations	194
Net Cash Provided by Noncapital Financing Activities	281,472
Cash Flows from Capital and Related Financing Activities:	
Payments for Capital Acquisitions	(6,488)
Net Cash Used for Capital and Related Financing Activities	(6,488)
Net Increase in Cash and Cash Equivalents	34,499
Cash and Cash Equivalents at Beginning of Year	$ 54,717
Cash and Cash Equivalents at End of Year	$ 89,216

(Continued)

SOUTH SCIOTO ACADEMY
FRANKLIN COUNTY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)

Reconciliation of Operating Loss to Net Cash Used by Operating Activities:		
Operating Loss	$	(263,341)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities		
Depreciation		37,357
Changes in Assets and Liabilities:		
(Increase)/Decrease in Accounts Receivable		(5,928)
(Increase)/Decrease in Intergovernmental Receivable		(1,700)
(Increase)/Decrease in Prepaid Items		42
Increase/(Decrease) in Accounts Payable		(812)
Increase/(Decrease) in Accounts Payable - related parties		(21,843)
Increase/(Decrease) in Intergovernmental Payable		15,740
Total Adjustments		22,856
Net Cash Used by Operating Activities	$	(240,485)

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 is sponsored under a contract with the University of Toledo (the Sponsor) for a period of five years commencing July 1, 2011. 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. For 2012, the Academy paid $28,649 to the Sponsor.

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 nine non-certificated personnel and eight certificated teaching personnel who provide services to 135 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 one checking account at a local bank; therefore, the Academy has not adopted a formal investment policy. The Academy's cash is not subject to custodial credit risk due to entire bank balance being covered by FDIC disclosure.

4. RECEIVABLES

Receivables at June 30, 2012, 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	$ 33,322
Edujobs	11,607
Title IIa	211
Race to the Top	44,690
Medicaid Ohio Health Plan	2,976
National School Lunch Program - Breakfast	3,958
National School Lunch Program - Lunch	6,362
IDEA Part B	12,882
Title IID	699
Total Intergovernmental Receivables	$ 116,707

Accounts Receivable:	Amounts
STRS/SERS overcollected from State Aid	$ 8,989
Total Accounts Receivable	$ 8,989

5. CAPITAL ASSETS

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

	Balance 6/30/11	Additions	Deletions	Balance 6/30/12
Business-Type Activity				
Capital Assets Being Depreciated				
Furniture, Fixtures, and Equipment	$ 152,685	$ 6,488	$ -	$ 159,173
Leasehold Improvements	43,180	-	-	43,180
Library	20,905	-	-	20,905
Total Capital Assets Being Depreciated	216,770	6,488	-	223,258
Less Accumulated Depreciation:				
Furniture, Fixtures, and Equipment	(87,594)	(24,018)	-	(111,612)
Leasehold Improvements	(33,333)	(9,847)	-	(43,180)
Library	(7,546)	(3,492)	-	(11,038)
Total Accumulated Depreciation	(128,473)	(37,357)	-	(165,830)
Total Capital Assets Being Depreciated, Net	$ 88,297	$ (30,869)	$ -	$ 57,428

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 2012, 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	$5,000,000
Part 2, Employment Practices, each claim	5,000,000
Aggregate, All Parts	10,000,000
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:	
Personal Property	210,000
BI	101,000
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 of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability, and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per 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 can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

7. DEFINED BENEFIT PENSION PLANS (Continued)

A. School Employees Retirement System (Continued)

Plan members are required to contribute 10% of their annual covered salary and the Academy is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ending June 30, 2012, the allocation to pension and death benefits is 12.70%. The remaining 1.30% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The School District's contributions to SERS for the years ended June 30, 2012, 2011, and 2010 were $9,267, $10,772 and $15,090 respectively, which equaled the required contributions each year.

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, 2012, 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, 2012, 2011, and 2010 were $34,836, $44,888, and $51,256 respectively; 100 percent has been contributed for all fiscal years.

8. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

A Medicare Part B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2012 was $99.90 for most participants, but could be as high as $319.70 per month depending on their income. SERS' reimbursement to retirees was $45.50. The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2012, the actuarially required allocation is .75%. The Academy's contributions for the years ended June 30, 2012, 2011 and 2010 were $547, $693 and $897, respectively, which equaled the required contributions each year.

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans. The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the year ended June 30, 2012, the health care allocation is .55%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge.

8. POSTEMPLOYMENT BENEFITS (Continued)

A. School Employees Retirement System (Continued)

For fiscal year 2012, the minimum compensation level was established at $35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The Academy's contributions assigned to health care for the years ended June 30, 2012, 2011, and 2010 were $1,915, $3,087, and $543 respectively.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status. The financial reports of SERS' Health Care and Medicare B plans are included in its Comprehensive Annual Financial Report. The report can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

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 2012, 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, 2012, 2011, and 2010 were $2,680, $3,453, and $3,943 respectively. 100 percent has been contributed for all fiscal years.

9. CONTINGENCIES

A. Student Attendance and Grants

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

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.

9. CONTINGENCIES (Continued)

A. Student Attendance and Grants (Continued)

This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the Academy at June 30, 2012, if applicable, cannot be determined at this time.

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 indicated an overpayment to the Academy of $15,740 for the 2012 fiscal year.

10. PURCHASED SERVICE EXPENSES

For the period ended June 30, 2012, purchased service expenses were payments for services rendered by various vendors, as follows:

Salaries	$ 348,995
Fringe Benefits	132,064
Other professional services	124,556
The Leona Group, LLC.	138,291
Legal Fees	5,846
University of Toledo	28,649
Garbage Removal/Cleaning	23,196
Repairs and Maintenance	5,856
Facility Rental	154,583
Other rentals and leases	5,132
Communication	14,470
Advertising	4,647
Contracted Food Service	70,606
Pupil Transportation	53,762
Total Purchased Services	$ 1,110,653

11. OPERATING LEASES

The Academy entered into a lease for the period July 1, 2006 through June 30, 2011 and extended through June 30, 2014, with TG707, Inc. Payments made totaled $154,583 for the fiscal period.

The Academy has the option to extend the lease for a one-year term.

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, 2012 was $70,000. The Academy has not received the $20,000 refund for 2012 as of this report date.

11. OPERATING LEASES (Continued)

The following is a schedule of the future minimum payments required under the operating leases as of June 30, 2012.

Fiscal Year Ending June 30,	Facility Lease
2013	$ 157,500
2014	157,500
Total minimum lease payments	$ 315,000

Rent payments will increase by the following amounts if attendance increases:

Threshold Level	Supplemental Monthly Rent
146 FTE	$ 625
176 FTE	$1,875

12. NOTES PAYABLE

Debt Activity during fiscal year 2012 was as follows:

	Balance at 06/30/11	Additions	Reductions	Balance at 06/30/12
RBS Citizens Bank	$ -	$ 175,000	$ 175,000	$ -
School Facilities Loan - The Leona Group	$ 70,000	$ -	$ -	$ 70,000
Total	$ 70,000	$ 175,000	$ 175,000	$ 70,000

The Academy entered into a loan with RBS Citizens NA Bank for $175,000 on July 19, 2011. The note was used to pay for general operations of the Academy. The note had a floating interest rate equal to the Prime Rate and was paid in full on June 29, 2012.

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 to be 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 and is currently operating on an automatic three-year extension. 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 2012 totaled $138,291. Terms of the contracts require TLG to provide the following:

13. RELATED PARTY TRANSACTIONS/MANAGEMENT AGREEMENT (Continued)

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.

For the year ended June 30, 2012, those expenses are as follows:

Salaries and Wages	$ 348,995
Benefits	132,064
Professional and Technical Services	24,715
Communications	156
Advertising	252
Contracted Craft or Trade Services	812
Other Supplies	4,105
Other Direct Costs	6,348
Total Expenses	$ 517,447

At June 30, 2012, the Academy had payables to The Leona Group, LLC in the amount of $58,168. The following is a schedule of payables to The Leona Group, LLC:

	Amount
Accrued Wages Payable	37,182
Contracts Payable	20,986
Total Expenses	$ 58,168

14. SUBSEQUENT EVENTS

The Academy entered into a loan with RBS Citizens NA Bank for $75,000 on September 7, 2012. 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, 2013.

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.

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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, 2012, and have issued our report thereon dated February 8, 2013. 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*.

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Phone: 614-466-3402 or 800-443-9275 Fax: 614-728-7199
www.ohioauditor.gov

We intend this report solely for the information and use of management, the Board of Directors, The University of Toledo (Ohio Council of Community Schools), and others within the Academy. We intend it for no one other than these specified parties.

Dave Yost
Auditor of State

February 8, 2013

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
MARCH 14, 2013