SOUTH SCIOTO ACADEMY
FRANKLIN COUNTY, OHIO

AUDIT REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

James G. Zupka, CPA, Inc.
Certified Public Accountants

Dave Yost · Auditor of State

Board Members
South Scioto Academy
220 Winslow Drive
Columbus, Ohio 43207

We have reviewed the *Independent Auditor's Report* of South Scioto Academy, Franklin County, prepared by James G. Zupka, CPA, Inc., for the audit period July 1, 2016 through June 30, 2017. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. South Scioto Academy is responsible for compliance with these laws and regulations.

Dave Yost

Dave Yost
Auditor of State

March 19, 2018

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

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SOUTH SCIOTO ACADEMY
FRANKLIN COUNTY, OHIO
AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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JAMES G. ZUPKA, C.P.A., INC.
Certified Public Accountants
5240 East 98th Street
Garfield Hts., Ohio 44125

Member American Institute of Certified Public Accountants (216) 475 - 6136 Ohio Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Members of the Board
South Scioto Academy
Columbus, Ohio

The Honorable Dave Yost
Auditor of State
State of Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of the South Scioto Academy, Franklin County, Ohio, (the Academy) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Academy's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the South Scioto Academy as of June 30, 2017, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedules of Net Pension Liabilities and Pension Contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting 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 assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2017, on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.

James G. Zupka, CPA, Inc.

James G. Zupka, CPA, Inc.
Certified Public Accountants

December 5, 2017

SOUTH SCIOTO PERFORMANCE ACADEMY
FRANKLIN COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

The discussion and analysis of the Toledo Preparatory and Fitness Academy's (The Academy) financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole. Readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2017 are as follows:

- Total assets were $316,591 and deferred outflows of resources were $765,712.
- Total liabilities were $2,560,810.
- Net position decreased $316,527 primarily due to changes in net pension liability, deferred outflows, and deferred inflows for pension.

Using the Basic Financial Statements

This report consists of four parts, the Management's Discussion and Analysis (MD&A), the basic financial statements, notes to those statements, and required supplementary information. The basic financial statements include a Statement of Net Positon, a Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows.

Reporting the Academy's Financial Activities

Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position and the Statement of Cash Flows

These documents look at all financial transactions and ask the question, "How did we do financially during 2017?" The statement of net position and the statement of revenues, expenses and changes in net position answer this question. These statements include *all assets plus deferred outflows of resources, liabilities plus deferred inflows of resources, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Academy's *net position* and changes in this position. This change in net position is important because it tells the reader that, for the Academy as a whole, the *financial position* of the Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

The statement of cash flows provides information about how the Academy finances and is meeting the cash flow needs of its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report as presents certain required supplementary information concerning the Academy's net pension liability.

The table below provides a summary of the Academy's net position for fiscal year 2017 and 2016.

Net Position

	2017	2016
Assets		
Current assets	283,098	$ 212,524
Security deposits	9,074	9,074
Capital assets, net	24,419	56,509
Total assets	316,591	278,107
Deferred outflows	765,712	316,896
Liabilities		
Current liabilities	185,129	58,658
Long-term liabilities:		
Net pension liability	2,375,681	1,615,645
Total liabilities	2,560,810	1,674,303
Deferred inflows	-	82,680
Net Position		
Net investment in capital assets	24,419	56,509
Unrestricted (deficit)	(1,502,926)	(1,218,489)
Total net position (deficit)	$(1,478,507)	$(1,161,980)

The Academy adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Academy's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals the Academy's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the Academy is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the Academy's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2017, the Academy's net position was a deficit of $1,478,507, a decrease of $316,527 from previous year. The deficit net position is almost entirely due to the accounting related to the implementation of GASB 68 and 71.

Change in Net Position

	2017	2016
Operating Revenues:		
State foundation	$ 1,521,079	$ 1,585,520
Other revenues	-	80,646
Total operating revenue	1,521,079	1,666,166
Operating Expenses:		
Purchased services	1,998,372	1,977,709
Materials and supplies	-	83,163
Depreciation expense	32,090	41,553
Other operating expenses	333,957	51,162
Total operating expenses	2,364,419	2,153,587
Non-operating revenues and expenses:		
Federal grants	524,707	328,622
State grants	2,106	327,158
Prior year adjustment	-	(395)
Total non-operating revenues and expenses	526,813	655,385
Change in net position	(316,527)	167,964
Net position (deficit) at the beginning of the year	(1,161,980)	(1,329,944)
Net position (deficit) at the end of the year	$ (1,478,507)	$ (1,161,980)

Net position decreased $316,527. The Academy contracted with a different management company in fiscal year 2017. As a result, the materials and supplies purchases are now part of purchased services expenses through the Performance Academies.

Capital Assets

The Academy had $24,419 in capital assets, net of accumulated depreciation. There were no additions or disposals during the year due to the full performance nature of the contract with Performance Academies. There was $32,090 in depreciation expense in fiscal year 2017.

Current Financial Related Activities

The Academy is sponsored under a contract with the Ohio Council of Community Schools. In fiscal year 2017, enrollment decreased from 220 FTE (full time equivalent) to 190 FTE, a decrease of 30 FTE. The Academy receives its finances mostly from state aid. Per pupil base aid for fiscal year 2017 was $6,000.

Contacting the Academy's Financial Management

This 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 money it receives. If you have any questions about this report or need additional information contact Todd Taylor, Treasurer of South Scioto Performance Academy, 2 Easton Oval Suite 525 Columbus OH 43219 or email Ttaylor@performanceacademies.com.

BASIC
FINANCIAL STATEMENTS

SOUTH SCIOTO PERFORMANCE ACADEMY
FRANKLIN COUNTY, OHIO

STATEMENT OF NET POSITION
JUNE 30, 2017

Assets:	
Current assets:	
Equity in pooled cash	
and cash equivalents	$ 97,969
Receivables:	
Accounts	1,508
Intergovernmental	183,621
Total current assets	283,098
Non-current assets:	
Deposits	9,074
Depreciable capital assets, net	24,419
Total non-current assets	33,493
Total assets	316,591
Deferred outflows of resources:	
Pensions - STRS	485,778
Pensions - SERS	279,934
Total deferred outflows of resources	765,712
Liabilities:	
Current liabilities:	
Accounts payable	183,621
Intergovernmental payable	1,508
Total current liabilities	185,129
Non-current liabilities:	
Due in more than one year:	
Net pension liability	2,375,681
Total non-current liabilities	2,375,681
Total liabilities	2,560,810
Net position:	
Investment in capital assets	24,419
Unrestricted (deficit)	(1,502,926)
Total net position (deficit)	$ (1,478,507)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

SOUTH SCIOTO PERFORMANCE ACADEMY
FRANKLIN COUNTY, OHIO

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Operating revenues:	
Foundation revenue	$ 1,521,079
Total operating revenues	1,521,079
Operating expenses:	
Purchased services - management fees. . . .	1,998,372
Other operating expenses.	333,957
Depreciation	32,090
Total operating expenses.	2,364,419
Operating loss.	(843,340)
Non-operating revenues:	
Federal grants.	524,707
State grants.	2,106
Total non-operating revenues.	526,813
Change in net position	(316,527)
Net position (deficit) at beginning of year. . .	(1,161,980)
Net position (deficit) at end of year	$ (1,478,507)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

SOUTH SCIOTO PERFORMANCE ACADEMY
FRANKLIN COUNTY, OHIO

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Cash flows from operating activities:	
Cash received from state foundation	$ 1,553,351
Cash payments to suppliers for goods and services . .	(1,929,393)
Net cash used in operating activities	(376,042)
Cash flows from noncapital financing activities:	
Cash received from federal grants.	371,242
Cash received from State grants.	2,106
Net cash provided by noncapital financing activities.	373,348
Net decrease in cash and cash cash equivalents	(2,694)
Cash and cash equivalents at beginning of year . . .	100,663
Cash and cash equivalents at end of year	$ 97,969
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	$ (843,340)
Adjustments:	
Depreciation	32,090
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:	
Accounts receivable.	21,525
Intergovernmental receivable.	30,764
Prepayments.	12,644
Accounts payable.	159,537
Intergovernmental payable.	1,508
Pension obligation payable.	(19,310)
Net pension liability.	760,036
Deferred inflows - pension.	(82,680)
Deferred outflows - pension.	(448,816)
Net cash used in operating activities	$ (376,042)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 1 - DESCRIPTION OF THE ACADEMY

The South Scioto Academy (the "Academy") has been approved as a tax exempt status nonprofit corporation under Section 501c(3) of the Internal Revenue Code. It was established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to address the needs of students in kindergarten through grade eight. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax exempt status.

The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admissions policies, employment practices, and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy. The Academy contracts with Performance Academies Inc. for most of its functions. See Note 14.

The Academy is sponsored under a contract with the Ohio Council of Community Schools (the Sponsor) for a period of five years commencing July 1, 2011. This contract was renewed for an additional five years. 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.

The Academy operates under the direction of a five-member Governing Board (the "Board). The Board is responsible for carrying out the provisions of the contract with the sponsor which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admissions standards, and qualifications of teachers. The Governing Board controls the Academy's instructional/support facility.

The Governing Board has entered into a management contract with Performance Academies Inc. The contract is for the period July 1, 2016 through June 30, 2019.

Also, the Academy is associated with the META Solutions, which is defined as a jointly governed organization. It is a computer consortium of area schools sharing computer resources (See Note 16).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (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 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 position, a statement of revenue, expenses, and changes in net position, and a statement of cash flows. Enterprise fund reporting focuses on the determination of the change in net position, financial position, and cash flows.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows of resources, all liabilities and deferred inflows of resources are included on the statement of net position. The statement of changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position. 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. Cash and Cash Equivalents

Cash received by the Academy is reflected as "Cash and Cash Equivalents" on the statement of net position. The Academy did not have any investments during the period ended June 30, 2017.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

F. 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 acquisition values as of the date received. The Academy maintains a capitalization threshold of $5,000 for furniture and equipment, education media and textbooks, land, and buildings, or any one item costing under $5,000 alone but purchased in a group for over $12,500. Software costing more than $10,000 per application is also capitalized. The Academy capitalizes all new vehicles and modular buildings and uses professional judgement for pre-owned vehicles and modular buildings. Site improvements, building improvements and leashold improvements are subject to professional judgement but not less capitalized if less than $25,000. 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. The Academy did not own any land or buildings during fiscal year 2017.

All reported capital assets 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
Compuer/EDP Equipment	3 Years
Office/Non EDP Equipment	6 Years

G. 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.

H. 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.

I. 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 $9,074, is held by the lessor (See Note 12).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

J. Net Position

Net position represents the difference between assets and liabilities. Net position is reported as restricted when there are limitations imposed on their use through external restriction imposed by creditors, grantors, or laws and regulations of other governments. The Academy applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available. Net position invested in capital assets consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets.

K. Prepaid Items

Payments made to vendors for services that will benefit fiscal years beyond June 30, 2017 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 fiscal year ended in which services are consumed.

L. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program. Revenues received from this program are recognized as operating revenues in the accounting period in which all eligibility requirements have been met. Grants and entitlements are recognized as non-operating revenues in the accounting period in which eligibility requirements have been met.

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 specific purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

The Academy also participates in various federal programs passed through the Ohio Department of Education.

Under the above programs, the Academy recorded \$1,521,079 this fiscal year from the State Foundation Program. \$524,707 was recognized from Federal Grants.

M. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until then. For the Academy, deferred outflows of resources are reported on the statement of net position for pension. See Note 8 for explanation of deferred outflows of resources related the Academy's net pension liability.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

In addition to liabilities, the statement of net position will report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the Academy, deferred inflows of resources include pension. See Note 8 for explanation of deferred inflows of resources related to the Academy's net pension liability.

N. Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2017, the Academy has implemented GASB Statement No. 77, "*Tax Abatement Disclosures*", GASB Statement No. 78, "*Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*", GASB Statement No. 80, "*Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14*" and GASB Statement No. 82, "*Pension Issues - An Amendment of GASB Statements No. 67, No. 68 and No. 73*".

GASB Statement No. 77 requires governments that enter into tax abatement agreements to disclose certain information about the agreement. GASB Statement No. 77 also requires disclosures related to tax abatement agreements that have been entered into by other governments that reduce the reporting government's tax revenues. The implementation of GASB Statement No. 77 did not have an effect on the financial statements of the Academy.

GASB Statement No. 78 establishes accounting and financial reporting standards for defined benefit pensions provided to the employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan) that meets the criteria in paragraph 4 of Statement 68 and that (a) is not a state or local governmental pension plan, (b) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (c) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the Academy.

GASB Statement No. 80 improves the financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement applies to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the Academy.

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES – (Continued)

GASB Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The implementation of GASB Statement No. 82 did not have an effect on the financial statements of the Academy.

NOTE 4 - DEPOSITS

The following information classifies deposits by category of risk as defined in GASB Statement No. 3 "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements," as amended by GASB Statement No. 40, "Deposits, and Investment Risk Disclosures."

At June 30, 2017, the book amount and the bank balance of the Academy's deposits was $97,969. The Academy's bank balance was fully insured by the Federal Deposit Insurance Corporation.

The Academy had no deposit policy for custodial risk beyond the requirement of state statute. Ohio law requires that deposits either be insured or be protected by eligible securities pledged to and deposited either with the School or a qualified trustee by the financial institution as security for repayment of all public monies deposited in the financial institution whose market value shall be at least 105% of deposits being secured. At June 30, 2017, none of the bank balance was exposed to custodial risk.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2017 consisted mostly 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:	Amount
Title I-A	$ 130,837
Title II-A	38,183
IDEA	14,601
Total intergovernmental receivables	$ 183,621

SOUTH SCIOTO PERFORMANCE ACADEMY
FRANKLIN COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2017 follows:

	Balance 06/30/16	Additions	Deductions	Balance 06/30/17
Business-type activity:				
Capital assets, being depreciated:				
Furniture and equipment	$ 279,615	$ -	$ -	$ 279,615
Education media and textbooks	20,905	-	-	20,905
Total capital assets, being depreciated	300,520	-	-	300,520
Less: accumulated depreciation:				
Furniture, fixtures and equipment	(223,106)	(32,090)	-	(255,196)
Education media and textbooks	(20,905)	-	-	(20,905)
Total accumulated depreciation	(244,011)	(32,090)	-	(276,101)
Governmental activities capital assets, net	$ 56,509	$ (32,090)	$ -	$ 24,419

NOTE 7 - 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; and natural disasters. As part of its management agreement with Performance Academies, Inc., Performance Academies, Inc. has contracted with an insurance company for property and general liability insurance pursuant to the Management Agreement. There was no significant reduction in insurance coverage from the prior year and claims have not exceeded insurance coverage over the past three years.

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.

NOTE 8 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the Academy's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

The Ohio Revised Code limits the Academy's obligation for this liability to annually required payments. The Academy cannot control benefit terms or the manner in which pensions are financed; however, the Academy does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting.

Plan Description - School Employees Retirement System (SERS)

Plan Description –Academy non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. 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 Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS' fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire after August 1, 2017
Full Benefits	Any age with 30 years of service credit Age 65 with 5 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the entire 14 percent was allocated to pension, death benefits, and Medicare B and no portion of the employer contribution rate was allocated to the Health Care Fund.

The Academy's contractually required contribution to SERS was $8,132 for fiscal year 2017.

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan Description - State Teachers Retirement System (STRS)

Plan Description –Academy licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS 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. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. 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 withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 11.5 percent of the 13.0 percent member rates goes to the DC plan and 1.5 percent goes to the DB plan. Member contributions to the DC Plan are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability 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 member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2017, plan members were required to contribute 14 percent of their annual covered salary. The Academy was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

The Academy's contractually required contribution to STRS was $92,275 for fiscal year 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources Related to Pensions

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Academy's proportion of the net pension liability was based on the Academy's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	SERS	STRS	Total
Proportion of the net pension liability prior measurement date	0.00589980%	0.00462783%	
Proportion of the net pension liability current measurement date	0.00834270%	0.00527312%	
Change in proportionate share	0.00244290%	0.00064529%	
Proportionate share of the net pension liability	$ 610,609	$ 1,765,072	$ 2,375,681
Pension expense	$ 147,102	$ 181,845	$ 328,947

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

At June 30, 2017, the Academy reported deferred outflows of resources related to pensions from the following sources:

	SERS	STRS	Total
Deferred outflows of resources			
Differences between expected and actual experience	$ 8,237	$ 71,316	$ 79,553
Net difference between projected and actual earnings on pension plan investments	50,366	146,549	196,915
Changes of assumptions	40,761	-	40,761
Difference between Academy contributions and proportionate share of contributions/ change in proportionate share	172,438	175,638	348,076
Academy contributions subsequent to the measurement date	8,132	92,275	100,407
Total deferred outflows of resources	$ 279,934	$ 485,778	$ 765,712

$100,407 reported as deferred outflows of resources related to pension resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources related to pension will be recognized in pension expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2018	$ 95,264	$ 81,111	$ 176,375
2019	95,231	81,112	176,343
2020	66,829	137,343	204,172
2021	14,478	93,937	108,415
Total	$ 271,802	$ 393,503	$ 665,305

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

Actuarial Assumptions - SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2016, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal (level percent of payroll)

For post-retirement mortality, the table used in evaluating allowances to be paid is the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, with 120% of male rates and 110% of female rates used. The RP-2000 Disabled Mortality Table with 90% for male rates and 100% for female rates set back five years is used for the period after disability retirement. Special mortality tables are used for the period after disability retirement.

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an experience study that was completed June 30, 2015. As a result of the actuarial experience study, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates and (g) mortality among disable member was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes.

The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US Equity	22.50	4.75
International Equity	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	100.00 %	

Discount Rate - The total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

Sensitivity of the Academy's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan’s net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Academy's proportionate share of the net pension liability	$ 808,408	$ 610,609	$ 445,043

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses, including inflation
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males’ ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS’ investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

Asset Class	Target Allocation	Long Term Expected Real Rate of Return *
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	100.00 %	7.61 %

* 10-Year annualized geometric nominal returns, which include the real rate of return and inflation of 2.50% and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and therefore is not a weighted average return of the individual asset classes.

Discount Rate - The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2016.

Sensitivity of the Academy's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the Academy's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the Academy's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Academy's proportionate share of the net pension liability	$ 2,345,638	$ 1,765,072	$ 1,275,331

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

Changes Between Measurement Date and Report Date - In March 2017, the STRS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75 percent to 7.45 percent. In April 2017, the STRS Board voted to suspend cost of living adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the overall decrease to Academy's NPL is expected to be significant.

NOTE 9 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

In addition to a cost-sharing multiple-employee defined benefit pension plan the School Employee Retirement System of Ohio (SERS) administers a postemployment benefit plan.

Health Care Plan Description – Sections 3309.375 and 3309.69 of the Ohio Revised Code permits 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 HMO's, PPO's, Medicare Advance 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 benefits manager to manage the self-insurance and prescription drug plans, respectively.

The Ohio Revised Code provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plan.

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 pensions and benefits, the Retirement Board may allocate the remainder of the employer 14 percent contribution to the Health Care Fund in accordance with the funding policy. For the year ended June 30, 2017, the health care allocation is 0%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. By statute no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2017, the minimum compensation level was established at $23,500. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund.

The Academy's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015 were $995, $3,174, and $1,867, respectively. The required contribution for fiscal year 2017 of $995 will be paid in fiscal year 2018. The full amount has been contributed for fiscal years 2016 and 2015.

NOTE 9 - POSTEMPLOYMENT BENEFITS - (Continued)

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 plan are included in its Comprehensive Annual Financial Report. That report can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

B. State Teachers Retirement System

Plan Description – STRS Ohio administers a pension plan that is comprised of: a Defined Benefit Plan, a self-directed Defined Contribution Plan, and a Combined Plan that offers features of the Defined Benefit Plan and the Defined Contribution Plan.

Ohio Law authorizes STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefits or Combined Plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2019.

Pursuant to Chapter 3307 of the Ohio Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting www.strsoh.org or by requesting a copy by calling 888-227-7877.

Funding Policy - Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14 percent employer contribution rate, 0 percent of covered payroll was allocated to post-employment health care for the years ended June 30, 2017, 2016 and 2015. The 14 percent employer contribution rate is the maximum rate established under Ohio law. The Academy did not make any contributions for health care for the fiscal years ended June 30, 2017, 2016 and 2015.

NOTE 10 - 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, the effect of any such disallowed claims on the overall financial position of the Academy at June 30, 2017, if applicable, cannot be determined at this time.

NOTE 10 – CONTINGENCIES – (Continued)

B. State Foundation Funding

School foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. However, there is an important nexus between attendance and enrollment for Foundation funding purposes. Community schools must provide documentation that clearly demonstrates students have participated in learning opportunities. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end.

Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE performed such a review on the Academy for fiscal year 2017.

As of the date of this report, additional ODE adjustments for fiscal year 2017 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2017 financial statements is not determinable, at this time. Management believes this may result in either an additional receivable to, or a liability of, the Academy

In addition, the Academy's contracts with their Sponsor and Management Company require payment based on revenues received from the State. As discussed above, additional FTE adjustments for fiscal year 2017 are not finalized. Until such adjustments are finalized by ODE, the impact on the fiscal year 2017 financial statements, related to additional reconciliation necessary with these contracts, is not determinable. Management believes this may result in either an additional receivable to, or liability of, the Academy

C. Litigation

The Academy is not involved in any litigation that, in the opinion of management, would have a material effect on the financial statements.

NOTE 11 - PURCHASED SERVICES

For the period ended June 30, 2017, purchased service expenses represent management services rendered by Performance Academies, Inc. (See Note 14) and STRS and SERS expenses made by the Academy on behalf of Performance Academies, Inc.

Purchased Services Agreement	$ 1,998,238
SERS and STRS Expenses	333,957
Total Purchased Services	$ 2,332,195

NOTE 12 - OPERATING LEASE

The Academy entered into a lease with AEP Charter South Scioto, LLC, for the period April 3, 2015 through April 2, 2035. A security deposit in the amount of $9,074 is held by the landlord.

The following is a schedule of the future minimum payments required under the operating lease as of June 30, 2017.

Fiscal Year Ending June 30,	Facility Lease
2018	$ 135,552
2019	138,263
2020	141,028
2021	145,259
2022	149,617
2023 - 2027	818,164
2028 - 2032	948,477
2033 - 2035	640,139
Total	$ 3,116,499

NOTE 13 - LONG-TERM OBLIGATIONS

The change in the Academy's long-term obligations during the fiscal year consist of the following:

	Balance Outstanding 6/30/16	Additions	Reductions	Balance Outstanding 6/30/17
Net Pension Liability	$ 1,615,645	$ 760,036	$ -	$ 2,375,681

The net pension liability is discussed further in Note 8.

NOTE 14 - AGREEMENT WITH PERFORMANCE ACADEMIES, INC.

On July 1, 2016, the Academy contracted with Performance Academies, Inc., to provide educational programs that offer educational excellence and innovation based upon the Academy's unique school design, comprehensive educational program, and sound school and business principles and management methodologies. This contract remains in effect as long as the Academy continues to renew the contract and has entered into or is continuing to operate under any chartering school contract. Under the contract Performance Academies, Inc. is responsible for providing educational and management services and products, human resources administration, including school personnel and business management, curricula, programs, contract administration and technology. Significant provisions of the contract are as follows:

NOTE 14 - AGREEMENT WITH PERFORMANCE ACADEMIES, INC. - (Continued)

A. Financial Provisions

Management Consulting and Operation Fee

The Academy pays Performance Academies, Inc. all state and federal per pupil allocations, transportation, technology or other operational funds, including private donations, endowments, or grants applied for on behalf of the Academy, except for two percent of the base state per pupil allocation. This two percent is to be retained by the Academy as a Board Reserve to be used by June 30 of each year for the Academy's benefit. The amount paid to Performance Academies, Inc. by the Academy is reflected in the Statement of Revenues, Expenses, and Changes in Net Position as Purchased Services - Management Fees operating expense.

The Academy's Financial Responsibility

The Academy uses the Board Reserve to pay Board members' compensation; expenses for fund raising and grant writing accomplished by the Academy; and other expenses for the benefit of the Academy at the Board's discretion. The actual transactions related to these expenditures are performed by Performance Academies, Inc. under the Academy's direction.

Performance Academies, Inc. Financial Responsibilities

Performance Academies, Inc. is responsible for the payment of all wages, compensation and expenses of Performance Academies, Inc. or the Academy including the Superintendent, Treasurer, assistants, administrators, clerical staff, and teachers. Performance Academies, Inc. is also responsible for and janitorial services; worker's compensation; other insurance; necessary comprehensive or premises liability insurance; and attorney fees. Performance Academies, Inc. pays their own office expenses and supplies; leases for equipment and the Academy offices or facilities; and travel, lodging and other expenses incurred pursuant to services rendered by Performance Academies, Inc.

Financial Reporting by Performance Academies, Inc.

Performance Academies, Inc. shall provide the Academy's Board with a proposed and projected annual budget prior to opening each fiscal year; statements of all revenues received with respect to the Academy, and statements of all direct expenditures for services rendered to or on behalf of the Academy. Performance Academies, Inc. also provides consultation on annual audits in compliance with state law and regulations showing the manner in which funds are spent for the Academy. Performance Academies, Inc. reports on Academy operations and finances on a quarterly basis and other information on a reasonably requested basis to enable the Board to monitor the performance of the Academy; and a reasonable opportunity to inspect, examine, audit and otherwise review the books, records, accounts, ledgers and other financial documents of Performance Academies, Inc. to the extent that they relate to or otherwise pertain to activities of the Academy.

NOTE 14 - AGREEMENT WITH PERFORMANCE ACADEMIES, INC. - (Continued)

Financial Reporting by the Academy

The Academy shall provide Performance Academies, Inc. with statements of all funds received by the Academy from grants applied for by the Academy, donations or endowments and statements of all expenditures and investments made with such funds, as well as with the Board Reserve funds.

B. Personnel

Performance Academies, Inc. selects and hires all teaching staff, administrative or other staff. They also evaluate, assign, discipline and transfer personnel. Performance Academies, Inc. also selects the Academy's Superintendent and establishes employment terms. During the first two years of operation, the Superintendent shall be a representative of Performance Academies, Inc. Performance Academies, Inc. determines the number of teachers needed for the operation of the Academy and selects and hires all teachers. The personnel who perform services at the Academy are employees or subcontractors or service providers of Performance Academies, Inc. and are paid by Performance Academies, Inc.

C. Agreement Termination

Termination by the Academy

The Academy may terminate the Contract after prior written notice to Performance Academies, Inc. if the Academy ceases to be approved by the Ohio Department of Education as an Ohio Community School and the Academy or Performance Academies, Inc. cannot secure another sponsor; upon sixty days prior written notice in the event that Performance Academies, Inc. be guilty of a felony or fraud, gross negligence, or other act of willful or gross misconduct in the rendering of services under the Agreement, or in the event that Performance Academies, Inc. fails to remedy a material breach of its duties or obligation within six months after written notice of the breach is provided to Performance Academies, Inc. by the Academy, if Performance Academies, Inc. has failed to cure such breach during the first three months of the notice period.

Termination by Performance Academies, Inc.

Performance Academies, Inc. may terminate the Contract in the event the Academy materially breaches the Agreement and the Academy fails to remedy such a breach within ninety days of its receipt of written notice of such breach from Performance Academies, Inc.

NOTE 15 - MANAGEMENT COMPANY EXPENSES

For the fiscal year ended June 30, 2017, Performance Academies, Inc. incurred the following expenses on behalf of the Academy:

Direct Expenses:	
Salaries & Wages	
Regular Instruction	$ 416,959
Special Instruction	100,693
Other Instruction	43,895
Support Services	107,614
Noninstructional Activities	63,213
Employees' Benefits	
Regular Instruction	63,086
Special Instruction	3,281
Other Instruction	5,444
Support Services	7,040
Noninstructional Activities	4,223
Professional and Techncial Services	
Regular Instruction	76,939
Special Instruction	10,821
Other Instruction	4,896
Support Services	14,769
Noninstructional Activities	143,280
Property Services	55,416
Utilities	28,744
Other Purchased Services	249,968
Supplies	
Regular Instruction	91,362
Other Instruction	9,475
Support Services	3,733
Noninstructional Activities	46,061
Other Direct Costs	7,211
Buildings	194,667
Total Expenses	$ 1,752,790

NOTE 15 - MANAGEMENT COMPANY EXPENSES – (Continued)

Overhead charges of $280,708 included in direct costs are assigned to the Academy based on a percentage of FTE students per Academy. These charges represent the indirect cost of services in the operation of the Academy. Such services include but are not limited to, facilities management, equipment, operational support services, management and management consulting, board relations, human resources, management, training and orientation financial reporting and compliance, purchasing and procurement, education services, technology support and marketing communications

NOTE 16 - METROPOLITAN EDUCATIONAL TECHNOLOGY ASSOCIATION (META) SOLUTIONS

The Academy is a participant in META Solutions which is a computer consortium that resulted from the mergers between Tri-Rivers Educational Computer Association (TRECA), Metropolitan Educational Council (MEC), Metropolitan Dayton Educational Cooperative Association (MDECA), Southeastern Ohio Valley Voluntary Education Cooperative (SEOVEC), and South Central Ohio Computer Association (SCOCA). META Solutions develops, implements and supports the technology and instructional needs of schools in a cost-effective manner. META Solutions provides instructional, core, technology and purchasing services for its member districts. The Board of Directors consists of the Superintendents from eleven of the member districts. Financial information can be obtained from Dave Varda, who serves as Chief Financial Officer, 100 Executive Drive, Marion, Ohio 43302.

REQUIRED SUPPLEMENTARY INFORMATION

SOUTH SCIOTO ACADEMY
FRANKLIN COUNTY, OHIO

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE ACADEMY'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST FOUR FISCAL YEARS

	2017	2016	2015	2014
Academy's proportion of the net pension liability	0.00834270%	0.00589980%	0.00361600%	0.00361600%
Academy's proportionate share of the net pension liability	$ 610,609	$ 336,648	$ 183,004	$ 215,032
Academy's covered-employee payroll	$ 259,093	$ 177,610	$ 96,371	$ 110,137
Academy's proportionate share of the net pension liability as a percentage of its covered-employee payroll	235.67%	189.54%	189.90%	195.24%
Plan fiduciary net position as a percentage of the total pension liability	62.98%	69.16%	71.70%	65.52%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the Academy's measurement date which is the prior year-end.

SOUTH SCIOTO ACADEMY
FRANKLIN COUNTY, OHIO

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE ACADEMY'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST FOUR FISCAL YEARS

	2017	2016	2015	2014
Academy's proportion of the net pension liability	0.00527312%	0.00462783%	0.00443855%	0.00443855%
Academy's proportionate share of the net pension liability	$ 1,765,072	$ 1,278,997	$ 1,079,609	$ 1,286,023
Academy's covered-employee payroll	$ 525,750	$ 482,836	$ 457,292	$ 317,131
Academy's proportionate share of the net pension liability as a percentage of its covered-employee payroll	335.72%	264.89%	236.09%	405.52%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	72.10%	74.70%	69.30%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the Academy's measurement date which is the prior year-end.

SOUTH SCIOTO ACADEMY
FRANKLIN COUNTY, OHIO

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF ACADEMY CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TEN FISCAL YEARS

	2017	2016	2015	2014	2013
Contractually required contribution	$ 8,132	$ 36,273	$ 23,409	$ 13,357	$ 15,243
Contributions in relation to the contractually required contribution	(8,132)	(36,273)	(23,409)	(13,357)	(15,243)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Academy's covered-employee payroll	$ 58,086	$ 259,093	$ 177,610	$ 96,371	$ 110,137
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.18%	13.86%	13.84%

2012		2011		2010		2009		2008	
$	9,814	$	11,465	$	15,987	$	10,548	$	11,385
	(9,814)		(11,465)		(15,987)		(10,548)		(11,385)
$	-	$	-	$	-	$	-	$	-
$	72,967	$	91,209	$	118,072	$	107,195	$	115,937
	13.45%		12.57%		13.54%		9.84%		9.82%

SOUTH SCIOTO ACADEMY
FRANKLIN COUNTY, OHIO

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF ACADEMY CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TEN FISCAL YEARS

	2017	2016	2015	2014	2013
Contractually required contribution	$ 92,275	$ 73,605	$ 67,597	$ 59,448	$ 41,227
Contributions in relation to the contractually required contribution	(92,275)	(73,605)	(67,597)	(59,448)	(41,227)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Academy's covered-employee payroll	$ 659,107	$ 525,750	$ 482,836	$ 457,292	$ 317,131
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	14.00%	13.00%	13.00%

2012		2011		2010		2009		2008	
$	34,836	$	44,888	$	51,256	$	40,992	$	36,150
	(34,836)		(44,888)		(51,256)		(40,992)		(36,150)
$	-	$	-	$	-	$	-	$	-
$	267,969	$	345,292	$	394,277	$	315,323	$	278,077
	13.00%		13.00%		13.00%		13.00%		13.00%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014 - 2017.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. For fiscal year 2017, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates and (g) mortality among disable member was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014 - 2017.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014 - 2017. See the notes to the basic financials for the methods and assumptions in this calculation.

JAMES G. ZUPKA, C.P.A., INC.
Certified Public Accountants
5240 East 98th Street
Garfield Hts., Ohio 44125

Member American Institute of Certified Public Accountants (216) 475 - 6136 Ohio Society of Certified Public Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Members of the Board
South Scioto Academy
Columbus, Ohio

The Honorable Dave Yost
Auditor of State
State of Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the South Scioto Academy, Franklin County, Ohio, (the Academy) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated December 5, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Academy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. 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 Academy's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Academy's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

James G. Zupka, CPA, Inc.

James G. Zupka, CPA, Inc.
Certified Public Accountants

December 5, 2017

SOUTH SCIOTO ACADEMY
FRANKLIN COUNTY, OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

The prior audit report, as of June 30, 2016, included no citations or instances of noncompliance. Management letter recommendations were corrected, repeated, or procedures instituted to prevent occurrences in this audit period.

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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 29, 2018