SOUTH SCIOTO ACADEMY
FRANKLIN COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2007

Mary Taylor, CPA
Auditor of State

SOUTH SCIOTO ACADEMY
FRANKLIN COUNTY

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Mary Taylor, CPA
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 the South Scioto Academy Franklin County, Ohio (the Academy), as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the South Scioto Academy, Franklin County, Ohio, as of June 30, 2007, 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 15, 2008, 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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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 15, 2008

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, 2007. 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.

The management's discussion and analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Government, issued in June 1999.

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 2007?" 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 1 provides a summary of the Academy's net assets for fiscal year 2007. Fiscal year 2007 was the Academy's initial year of operation, as such there is no comparison.

TABLE 1

Assets		
Current Assets:		
Cash and Cash Equivalents	$	34,360
Accounts Receivable		4,384
Intergovernmental Receivables		52,267
Prepaid Items		16,359
Total Current Assets		107,370
Non-Current Assets:		
Capital Assets:		
Depreciable Capital Assets, Net		60,168
Total Non-Current Assets		60,168
Total Assets		167,538
Liabilities		
Current Liabilities:		
Accounts Payable		36,775
Accrued Wages Payable		74,588
Deferred Revenue		349
Total Current Liabilities		111,712
Net Assets		
Invested in Capital Assets, Net of Related Debt		60,168
Unrestricted		(43,893)
Restricted for: Other Purposes		39,551
Total Net Assets	$	55,826

Total net assets for the Academy were $55,826. Cash increased by $34,360.

Table 2 shows the changes in net assets for fiscal year 2007, as well as a listing of revenues and expenses. Fiscal year 2007 was the Academy's initial year of operation, as such there is no comparison.

TABLE 2

Operating Revenues	
Foundation Payments	$ 700,459
Food Services	2,970
Other Revenues	284
Total Operating Revenues	703,713
Operating Expenses	
Purchased Services	827,955
Materials and Supplies	44,176
Depreciation	8,657
Other	14,628
Total Operating Expenses	895,416
Operating Loss	(191,703)
Non-Operating Revenues and Expenses	
Federal Grants	202,594
State Grants	57,000
Interest and Fiscal Charges	(12,065)
Total Non-Operating Revenues and Expenses	247,529
Change in Net Assets	55,826
Net Assets Beginning of Year	-
Net Assets End of Year	$ 55,826

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Capital Assets

At the end of fiscal year 2007, the Academy had $60,168 invested in furniture, fixtures, and equipment (net of depreciation). Table 3 shows capital assets (net of depreciation) for the fiscal year 2007.

TABLE 3

	2007
Furniture, fixtures, and equipment	$ 60,168

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 2006-2007 school year there were 104 students enrolled in the Academy. The Academy receives its finances mostly from state aid. Foundation payments for fiscal year 2007 amounted to $700,459.

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, 2007

Assets		
Current Assets:		
Cash and Cash Equivalents	$	34,360
Accounts Receivable		4,384
Intergovernmental Receivable		52,267
Prepaid Items		16,359
Total Current Assets		107,370
Non-Current Assets:		
Capital Assets:		
Depreciable Capital Assets, Net		60,168
Total Non-Current Assets		60,168
Total Assets		167,538
Liabilities		
Current Liabilities:		
Accounts Payable (Trade)		36,775
Accounts Payable (Related)		74,588
Deferred Revenue		349
Total Current Liabilities		111,712
Net Assets		
Invested in Capital Assets, Net of Related Debt		60,168
Unrestricted		(43,893)
Restricted for:		
Other Purposes		39,551
Total Net Assets	$	55,826

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, 2007

Operating Revenues	
Foundation Payments	$ 700,459
Food Services	2,970
Other Revenues	284
Total Operating Revenues	703,713
Operating Expenses	
Purchased Services (Note 10)	827,955
Materials and Supplies	44,176
Depreciation	8,657
Other	14,628
Total Operating Expenses	895,416
Operating Loss	(191,703)
Non-Operating Revenues and Expenses	
Federal Grants	202,594
State Grants	57,000
Interest and Fiscal Charges	(12,065)
Total Non-Operating Revenues and Expenses	247,529
Change in Net Assets	55,826
Net Assets Beginning of Year	-
Net Assets End of Year	$ 55,826

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

SOUTH SCIOTO ACADEMY
FRANKLIN COUNTY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities:	
Cash Received from State of Ohio	$ 648,192
Cash Received from Food Services	2,970
Cash Received from Other Operating Revenues	284
Cash Payments for Purchased Services	(737,335)
Cash Payments for General Supplies	(44,176)
Cash Payments for Other Operating Expenses	(14,628)
Net Cash Used for Operating Activities	(144,693)
Cash Flows from Noncapital Financing Activities:	
Federal and State Restricted Grants	259,943
Proceeds from Notes	375,000
Principal Payments	(375,000)
Net Cash Provided from Noncapital Financing Activities	259,943
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Payments for Capital Acquisitions	(68,825)
Interest Payments	(12,065)
Net Cash Used for Capital and Related Financing Activities	(80,890)
Net Increase in Cash and Cash Equivalents	34,360
Cash and Cash Equivalents at Beginning of Year	-
Cash and Cash Equivalents at End of Year	34,360
Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating Loss	(191,703)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation	8,657
Changes in Assets and Liabilties:	
(Increase)/Decrease in Accounts Receivable	(4,384)
(Increase)/Decrease in Intergovernmental Receivable	(52,267)
(Increase)/Decrease in Prepaid Expenses	(16,359)
Increase/(Decrease) in Accounts Payable - Trade	36,775
Increase/(Decrease) in Accounts Payable - Related	74,588
Total Adjustments	(144,693)
Net Cash Used For Operating Activities	$ (144,693)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

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

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

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 four non-certified personnel and seven certificated teaching personnel who provide services to 104 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, land, and buildings, or any one item costing under $1,000 alone but purchased in a group for over $2,500. Software costing more then $10,000 per application will also be 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)

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, is held by the lessor. (See Note 11)

3. DEPOSITS

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

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy's deposit policy requires that financial institutions be evaluated and only those with an acceptable risk level for custodial risk are used for the Academy's deposits. At June 30, 2007, the bank balance of Academy's deposits was $67,344. The bank balance was covered by federal depository insurance which covers deposits up to $100,000. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

4. RECEIVABLES

Receivables at June 30, 2007, consisted of intergovernmental grants. All receivables are considered collectible in full and will be received within one year.

Title I '07	$16,029
Federal Charter School Grant	33,485
National School Lunch Program	2,753
Total Intergovernmental Receivables	$52,267

5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007:

	Balance 6/30/06	Additions	Deletions	Balance 6/30/07
Furniture, Fixtures, and Equipment	-	68,825	-	68,825
Less Accumulated Depreciation:	-	(8,657)	-	(8,657)
Capital Assets, Net	-	60,168	-	60,168

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 2007, the Academy contracted with Lexington Insurance Company for general liability, property insurance and educational errors and omissions insurance.

Coverage is as follows:

Educational Errors and Omissions:	
Per occurrence	$10,000,000
Total per year	10,000,000
General Liability:	
Per occurrence	1,000,000
Total per year	2,000,000
Vehicle	N/A

B. Workers' Compensation

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

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Academy's required contributions for pension obligations to SERS for the fiscal year ended June 30, 2007, were $10,445; 100 percent has been contributed for fiscal year 2007.

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. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. 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, by calling (614) 227-4090, or by visiting the STRS Ohio website at www.strs.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary 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 Combined plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB plan. DC 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. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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, 2007, 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. Chapter 3307 of the Ohio Revised Code provides statutory authority for a member and employer contributions.

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal year ended June 30, 2007, were $42,836; 100 percent has been contributed for fiscal year 2007.

8. POSTEMPLOYMENT BENEFITS

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

STRS retirees who participated in the Defined Benefit Plan or the Combined Plan and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. For the Academy, this amount equaled $1,785 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) the balance in the Fund was $3.5 billion. For the year ended June 30, 2006, net health care costs paid by STRS were $282,743,000 and STRS had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at $35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled $3,708.

8. POSTEMPLOYMENT BENEFITS (Continued)

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next year. Expenses for health care at June 30, 2006, (the latest information available), were $158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of $295.6 million. SERS has 59,492 participants eligible to receive benefits.

9. CONTINGENCIES

A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2007.

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 reflected the Academy owed the Ohio Department of Education $6,326.

10. PURCHASED SERVICE EXPENSES

For the period ended June 30, 2007, purchased service expenses were payments for services rendered by various vendors, as follows:

Service	Amount
Salaries	$236,104
Fringe Benefits	68,277
Repairs and maintenance	5,313
Legal	20,513
Advertising	66,211
Dues and Fees	7,570
Educational Service Center of Franklin County	14,009
The Leona Group, LLC.	111,423
Cleaning Services	12,975
Communications	13,616
Other professional services	92,775
Other rentals and leases	5,002
Building lease agreements	174,167
Total Purchased Services	$827,955

11. OPERATING LEASES

The Academy has entered into a lease for the period July 1, 2006 through June 30, 2011 with TG707, Inc. Payments made totaled $190,000 for the fiscal period. The Academy has the option to extend the lease for one additional five-year term. The annual Base Rent for the extended term shall be $185,000.

The following is a schedule of the future minimum payments required under the operating leases as of June 30, 2007.

Fiscal Year Ending June 30,	Facility Lease
2008	210,000
2009	225,000
2010	225,000
2011	225,000
Total minimum lease payments	$ 885,000

12. NOTES PAYABLE

Debt Activity During 2007 was as follows:

	Balance at 07/01/06	Additions	Reductions	Balance at 06/30/07
Note Payable - Citizens Bank	$ -	$ 375,000	$ 375,000	$ -

The Academy entered into a loan with Citizens Bank for $375,000 on September 18, 2006. The note was used to pay for general operations of the Academy. The note had an interest rate of 8.25 percent and had a maturity date of June 7, 2007.

13. RELATED PARTY TRANSACTIONS/MANAGEMENT COMPANY

The Academy entered into a five-year contract, effective June 1, 2006 through June 30, 2011, with The Leona Group, LLC for educational management services for all of the management, operation, administration, and education at the Academy. In exchange for its services, TLG receives a capitation fee of 12% of the per pupil expenditures and a Year-End fee of 50% of the audited financial statement excess of revenues over expenses, if any. The management fee for fiscal year 2007 was $111,423. Terms of the contracts require TLG to provide the following:

A. implementation and administration of the Educational Program;

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

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

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

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

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

13. RELATED PARTY TRANSACTIONS/MANAGEMENT COMPANY (Continued)

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.

At June 30, 2007, the Academy had payables to The Leona Group, Inc. in the amount of $74,588. The following is a schedule of payables to The Leona Group, Inc.:

	Amount
Payroll	$16,514
Management Fee	55,503
Miscellaneous	2,571
Total Expenses	$ 74,588

14. SPONSOR

The Academy was approved for operation under a contract with the Educational Service Center of Franklin County (the Sponsor) for a period of time to be determined by the Sponsor commencing July 1, 2006. As part of this contract, the Sponsor is entitled to 2% of all state revenues received by the Academy. Total amount due and paid for fiscal year 2007 was $14,009.

15. SUBSEQUENT EVENT

The Academy entered into a loan agreement with RBS Citizens, N.A. on September 8, 2007 with a maturity date of June 30, 2008. This agreement provided the Academy with $250,000 for operations of the Academy. The annual rate of interest shall be a floating rate equal to seventy-five percent of the Prime Rate, as determined by the Registered Owner.

16. MANAGEMENT'S PLAN

Fiscal year 2007 was the Academy's first year in existence and had an operating loss of $191,703. During the fiscal year, enrollment and revenues had not yet grown to a sufficient level to cover operating costs, such as educational services and administrative start up costs, so the Academy experienced a loss.

Because the Academy's revenues are largely based on their student enrollment, the Board has passed an aggressive enrollment and marketing plan for 2008. Management's plan is to increase enrollment through active advertising via print, radio, mailings and through referrals of current parents which will help reduce future deficits and operating losses.

The plan has very specific target enrollment level that could potentially increase revenues by $316,000 during fiscal year 2008. As of February, 2008, total enrollment is 127 students, a 22% increase from June 30, 2007. Management expects this upward trend to continue; however, as with fiscal year 2007, projected revenues and expenses indicate these financial difficulties will not be completely eliminated during fiscal year 2008.

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Mary Taylor, CPA
Auditor of State

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 basic financial statements of South Scioto Academy, Franklin County, Ohio (the Academy) as of and for the year ended June 30, 2007, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated February 15, 2008. 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 expressing our opinion on the financial statements, but not to opine 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Academy's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2007-001.

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A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Academy's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, we believe finding number 2007-001 is also a material weakness.

We also noted certain internal control matters that we reported to the Academy's management in a separate letter dated February 15, 2008

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*.

We also noted a certain noncompliance or other matter not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated February 15, 2008.

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

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 15, 2008

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

FINDING NUMBER 2007-001

Significant Deficiency/Material Weakness – GAAP Adjustments

Sound financial reporting is the responsibility of the Treasurer's Office and the Board and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

The following errors were noted involving the Academy's financial statement presentation:

- The amount reported as Intergovernmental Receivable was understated ($41,105).
- Restricted net assets were classified as Unrestricted net assets ($39,551).
- The amount reported as Accounts Payable (trade) was understated ($6,236).
- Accounts Receivable were recorded as a negative liability, STRS/SERS Payable ($4,384)

Not presenting financial information accurately resulted in the financial statements requiring the above audit adjustments and reclassification entries, including additional time and effort to identify variances and discrepancies.

We recommend the Academy's Treasurer take steps to ensure the accurate presentation of the financial statements. Financial transactions should be posted in accordance with procedures established by generally accepted account principles (GAAP). By exercising accuracy in recording financial activity, the Academy can reduce posting errors and increase the reliability of the financial data throughout the year and at year end.

The Academy's financial statements have been adjusted to accurately reflect the proper line item classifications.

The Treasurer should review the adjustments and reclassifications identified above to ensure that similar errors are not reported on the financial statements in subsequent years. In addition, the Academy should adopt policies and procedures, including a final review of the financial statements and note disclosures by the Treasurer to identify and correct errors and omissions.

Officials' Response:

While it is unfortunate that errors were made recording some financial transactions, it is inevitable that mistakes will be made from time to time. There certainly was no intent to mislead and accurate financial information is a source of pride for the academy's accounting team. Every effort is made to ensure that reliable data is provided to ensure that the academy's financial position is fairly stated.

The majority of the finding is related to the understatement of an intergovernmental receivable. It was my understanding that revenue received or expected to be received more than 60 days after fiscal year-end was not to be recorded as a receivable. I was obviously mistaken and will ensure in the future the proper recording of receivables.

Mary Taylor, CPA
Auditor of State

SOUTH SCIOTO ACADEMY

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 13, 2008

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