

**PATRIOT PREPARATORY ACADEMY  
(A COMPONENT UNIT OF REYNOLDSBURG CITY SCHOOL DISTRICT)  
FRANKLIN COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS  
For The Fiscal Year Ended June 30, 2011**





# Dave Yost • Auditor of State

Board of Directors  
Patriot Preparatory Academy  
4938 Beatrice Drive  
Columbus, Ohio 43227

We have reviewed the *Independent Accountant's Report* of the Patriot Preparatory Academy, Franklin County, prepared by Kennedy Cottrell Richards LLC, for the audit period July 1, 2010 through June 30, 2011. 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. In conjunction with the work performed by the Independent Public Accountant, the Auditor of State is issuing the following:

## **Payroll Expenditures – Noncompliance Finding – Finding for Recovery**

*State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951)*, provides that expenditures made by a governmental unit should serve a public purpose. Typically the determination of what constitutes a “proper public purpose” rests with the judgment of the governmental entity, unless such determination is arbitrary or unreasonable. Even if a purchase is reasonable, Ohio Attorney General Opinion 82-006 indicates that it must be memorialized by a duly enacted ordinance or resolution and may have a prospective effect only. **Auditor of State Bulletin 2003-005 Expenditure of Public Funds/Proper Public Purpose** states that the Auditor of State’s Office will only question expenditures where the legislative determination of a public purpose is manifestly arbitrary and incorrect.

The Academy paid Dave McIlrath, the Academy’s Executive Director, payroll advances in the amount of \$48,750, of which \$43,333 was repaid through payroll payments forgone to repay the advances. The remaining balance of payroll advances of \$5,417 was never reimbursed to the Academy, either through payroll deductions or a payment to the Academy. There was no indication that the Academy’s board approved the advances to the Executive Director. Additionally, there was no documentation to support that the payments were otherwise for a proper public purpose.

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended in favor of the Academy’s General Fund is hereby issued against Dave McIlrath for \$5,417.

Additionally, under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of such expenditure. *Seward v. National Surety Co.* (1929), 120 Ohio St. 47; 1980 Op. Att’y Gen. No. 80-074; Ohio Rev. Code Section 9.39; *State, ex.rel. Village of Linndale v. Masten* (1985), 18 Ohio St.3d 228. Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property. 1980 Op. Att’y Gen. No. 80-074.

Accordingly, Carl Shye, the Academy’s Treasurer, and his bonding company, the Cincinnati Insurance Company, are jointly and severally liable in the amount of \$5,417 in favor of the Academy’s General Fund.

We recommend the Academy pay all employees in accordance with contracted amounts and not issue pay advances.

**Officials’ Response:**

The Board adopted a repayment plan for Dave McIlrath on April 4, 2012 for the full sum, to be paid each month in equal installments from April 2012 to June 2013.

**Proper Public Purpose – Noncompliance Finding – Finding for Recovery Repaid Under Audit**

*State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951)*, provides that expenditures made by a governmental unit should serve a public purpose. Typically the determination of what constitutes a “proper public purpose” rests with the judgment of the governmental entity, unless such determination is arbitrary or unreasonable. Even if a purchase is reasonable, Ohio Attorney General Opinion 82-006 indicates that it must be memorialized by a duly enacted ordinance or resolution and may have a prospective effect only. **Auditor of State Bulletin 2003-005 Expenditure of Public Funds/Proper “Public Purpose”** states that the Auditor of State’s Office will only question expenditures where the legislative determination of a public purpose is manifestly arbitrary and incorrect.

On May 3, 2011, the Academy paid \$2,500 on a legal disbursement to Benesch, Friedlander, Coplan, and Aronoff LLP with check number 5400 that was for legal services provided for Briar Patch LLC, a company owned by the Academy’s Executive Director, Dave McIlrath. The payment for legal services was unrelated to Academy business. There was no indication that the Academy’s board approved the payment for legal services. Additionally, there was no documentation to support that the payments were otherwise for a proper public purpose.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of such expenditure. Seward v. National Surety Co., 120 Ohio St. 47 (1929); 1980 Op. Att’y Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex.rel. Village of Linndale v. Masten, 18 Ohio St. 3d 228 (1985).

In accordance with the forgoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public money illegally expended would have been issued against Dave McIlrath in the amount of \$2,500, in favor of the Academy’s General Fund. On March 1, 2012, \$2,500 was repaid by check #1089 from Dave McIlrath and posted to the Academy’s General Fund.

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. The Patriot Preparatory Academy is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost  
Auditor of State

May 4, 2012

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Patriot Preparatory Academy  
(A Component Unit of Reynoldsburg City School District)  
Franklin County

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## INDEPENDENT ACCOUNTANT'S REPORT

Patriot Preparatory Academy  
Franklin County  
4938 Beatrice Drive  
Columbus, Ohio 43227

To the Board of Directors:

We have audited the accompanying basic financial statements of the Patriot Preparatory Academy, Franklin County (the Academy), a component unit of the Reynoldsburg City School District, as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Patriot Preparatory Academy, as of June 30, 2011, 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 January 24, 2012, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

A handwritten signature in black ink that reads "Kennedy Cottrell Richards LLC". The signature is written in a cursive, flowing style.

Kennedy Cottrell Richards LLC  
January 24, 2012

**Patriot Preparatory Academy**  
**(A COMPONENT UNIT OF REYNOLDSBURG CITY SCHOOL DISTRICT)**  
**Franklin County**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2011**  
**UNAUDITED**

The discussion and analysis of Patriot Preparatory Academy (the Academy) financial performance provides an overall view of the Academy's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

**Financial Highlights**

- Total Assets were \$ 365,074
- Total Liabilities were \$ 268,729
- Change in Net Assets was \$96,345

**Using this Annual Financial Report**

This report consists of three parts, the Management's Discussion and Analysis (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 and Statement of Revenues, Expenses, and Changes in Net Assets reflect how the Academy did financially during fiscal year 2011. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid. These two statements report the School's net assets and changes in those assets. This change in net assets is important because it tells the reader whether 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. Non-financial factors include the School's student enrollment, per-pupil funding as determined by the State of Ohio, change in technology, required educational programs and other factors.

**Patriot Preparatory Academy  
 (A COMPONENT UNIT OF REYNOLDSBURG CITY SCHOOL DISTRICT)  
 Franklin County  
 Management's Discussion and Analysis  
 For the Fiscal Year Ended June 30, 2011  
 UNAUDITED**

Table 1 provides a summary of the school's net assets for fiscal year 2011

**Table I**

		<u>2011</u>
Assets		
Current Assets	\$	365,074
Total Assets		<u>365,074</u>
Liabilities		
Current liabilities		268,729
Total Liabilities		<u>268,729</u>
Net Assets		
Unrestricted		<u>96,345</u>
Total Net Assets	\$	<u>96,345</u>

As this was the initial period of operation, a comparative analysis has not been presented. In future years, when prior year information is available, a comparative analysis will be presented.

Assets totaled \$365,074, with \$300,008 in cash. Liabilities totaled \$268,729, leaving unrestricted net assets of \$96,345.

**Patriot Preparatory Academy  
(A COMPONENT UNIT OF REYNOLDSBURG CITY SCHOOL DISTRICT)  
Franklin County  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2011  
UNAUDITED**

Table 2 shows the Changes in net assets for Fiscal year 2011

		<u>2011</u>
<b>Table 2</b>		
Net Assets		
Operating Revenues		
State Foundation	\$	2,583,094
Charges for services		130,403
Other		143,762
Total Operating Revenues		<u>2,857,259</u>
Non-Operating Revenues		
Federal and State Grants		311,284
Total Non-Operating Revenues		<u>311,284</u>
Total Revenues		<u>3,168,543</u>
Operating Expenses		
Salaries		1,355,805
Fringe Benefits		465,426
Purchased Services		599,714
Rent		330,200
Materials & Supplies		321,053
Total Expenses		<u>3,072,198</u>
Change in Net Assets		96,345
Net Assets at Beginning of Year		0
Net Assets at End of Year	\$	<u>96,345</u>

As this was the initial period of operation, a comparative analysis has not been presented. In future years, when prior year information is available, a comparative analysis will be presented.

Total foundation revenue for FY2011 was \$2,583,094 based on a first year enrollment average of 445 students. Operating expenses were \$3,072,198 with a \$96,345 change in net assets.

**Patriot Preparatory Academy  
(A COMPONENT UNIT OF REYNOLDSBURG CITY SCHOOL DISTRICT)  
Franklin County  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2011  
UNAUDITED**

**Budgetary Requirements**

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in the Ohio Revised Code Chapter 5705, unless specifically provided by the Academy's contract with its sponsor. The contract between the Academy and its sponsor, Reynoldsburg City School District, prescribes an annual budget requirement as part of preparing a five year forecast, which is updated on an annual basis.

**Capital Assets**

At the end of fiscal year June 30, 2011, the Academy had no capital assets.

**Current Financial Issues**

During the fiscal year ended June 30, 2011, there were approximately 445 students enrolled in the Academy. The Academy receives its finances mostly from state aid. Per pupil funding for this fiscal year amounted to \$5,565 per student. Carl W. Shye Jr. acted as the Academy's fiscal agent.

**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 questions about this report or need additional information contact Mr. Sean Smith, 4938 Beatrice Drive, Columbus, Ohio 43227-2113 or email at [ssmith@libertyprep.com](mailto:ssmith@libertyprep.com).

**PATRIOT PREPARATORY ACADEMY  
(A COMPONENT UNIT OF REYNOLDSBURG CITY SCHOOL DISTRICT)  
FRANKLIN COUNTY  
STATEMENT OF NET ASSETS  
JUNE 30, 2011**

**Assets**

**Current Assets:**

Cash and Cash Equivalents	\$ 300,008
Accounts Receivable	25,732
Intergovernmental Receivable	<u>39,334</u>
<b>TOTAL CURRENT ASSETS</b>	<b>365,074</b>

<b>TOTAL ASSETS</b>	<b><u>365,074</u></b>
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**Liabilities**

**Current liabilities**

Accounts Payable	16,868
Accrued Wages and Benefits Payable	238,134
Intergovernmental Payables	<u>13,727</u>
<b>TOTAL CURRENT LIABILITIES</b>	<b>268,729</b>

<b>TOTAL LIABILITIES</b>	<b><u>268,729</u></b>
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**Net Assets**

Unrestricted	<u>96,345</u>
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<b>TOTAL NET ASSETS</b>	<b>\$ <u>96,345</u></b>
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*See the accompanying notes to the financial statements*

**PATRIOT PREPARATORY ACADEMY  
(A COMPONENT UNIT OF REYNOLDSBURG CITY SCHOOL DISTRICT)  
FRANKLIN COUNTY  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

<b>Operating Revenues:</b>		
State Foundation	\$	2,583,094
Charges for Services		130,403
Other		143,762
<i>Total Operating Revenues</i>		<u>2,857,259</u>
 <b>Operating Expenses:</b>		
Salaries		1,355,805
Fringe Benefits		465,426
Purchased Services		599,714
Rent		330,200
Materials & Supplies		321,053
<i>Total Operating Expenses</i>		<u>3,072,198</u>
 <i>Operating Income (Loss)</i>		 (214,939)
 <b>Non-Operating Revenues:</b>		
Federal and State Grants		<u>311,284</u>
<i>Total Non-Operating Revenues</i>		311,284
 <i>Change in Net Assets</i>		 96,345
 <i>Net Assets at Beginning of Year</i>		 -
<i>Net Assets at End of Year</i>	\$	<u><u>96,345</u></u>

*See the accompanying notes to the financial statements*

**PATRIOT PREPARATORY ACADEMY  
(A COMPONENT UNIT OF REYNOLDSBURG CITY SCHOOL DISTRICT)  
FRANKLIN COUNTY  
STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Cash Flows from Operating Activities

Cash Received from State Foundation	\$	2,583,094
Cash Received from Charges for Services		104,671
Cash Received from Other Operating Revenues		143,762
Cash Payments to Suppliers for Goods and Services		(1,234,099)
Cash Payments to Employees for Services		(1,157,005)
Cash Payments for Employee Benefits		(451,699)
		<hr/>
Net Cash Used for Operating Activities		(11,276)

Cash Flows from Noncapital Financing Activities

Cash Received from Operating Grants-Federal & State		311,284
		<hr/>
Net Cash Provided by Noncapital Financing Activities		311,284
Net Increase (Decrease) in Cash and Cash Equivalents		300,008
Cash and Cash Equivalents at Beginning of Year		0
		<hr/>
Cash and Cash Equivalents at End of Year	\$	300,008
		<hr/> <hr/>

Reconciliation of Operating Income to Cash Used for Operating Activities:

Operating Income (loss)	\$	(214,939)
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**Adjustments to Reconcile Operating Income to  
Net Cash Used for Operating Activities:**

Changes in Assets and Liabilities:		
Increase in Receivables		(25,732)
Increase in Intergovernmental Receivable		(39,334)
Increase in Accrued Wages & Taxes		238,134
Increase in Accounts Payable		16,868
Increase in Intergovernmental Payable		13,727
		<hr/>
Net Cash Used for Operating Activities	\$	(11,276)
		<hr/> <hr/>

*See the Accompanying notes to the financial statements.*

**PATRIOT PREPARATORY ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**1. Description of the Reporting Entity**

Patriot Preparatory Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapter 3314 and 1702. The Academy's mission is to provide an orderly and supportive environment whereby students experience preparations for college, career and life. The Academy operates on a foundation which fosters character building for all students, parents and staff members. The Academy, which is part of the State's education program, 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 Reynoldsburg City School District Board of Education (the Sponsor) for a period of five years commencing July 1, 2010 and ending June 30, 2015. 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 School is considered a component unit of the Reynoldsburg City School District for reporting purposes, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units".

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 62 employees serving 445 students.

**2. Summary of Significant Accounting Policies**

The basic financial statements of the Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. 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 (FASB) statements and interpretations issued on or before August 30, 1989 provided they do not conflict with or contradict GASB pronouncements. The Academy does not apply FASB statements and interpretations issued after November 30, 1989. 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 Revenues, Expenses, and Changes in Net Assets, and a Statement of Cash Flows. The Academy uses enterprise accounting to maintain its financial records during the fiscal year. Enterprise accounting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

**PATRIOT PREPARATORY ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**B. Measurement Focus**

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 Revenues, Expenses, and Changes in Net Assets presents increases (i.e. revenue) and decreases (i.e. expenses) in net total assets. The Statement of Cash Flows provides information about how the Academy finances meets its cash flow needs.

**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.

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

Revenues resulting from non-exchange transactions, in which the Academy receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the fiscal year in which all eligibility requirements have been satisfied. 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 contract between the Academy and its sponsor. The contract between the Academy and its Sponsor does prescribe an annual budget requirement in addition to preparing a five-year forecast, which is to be updated on an annual basis.

**E. Cash and Cash Equivalents**

Cash received by the Academy is reflected as "Cash and Cash Equivalents" on the Statement of Net Assets. The Academy had no investments during the period ended June 30, 2011.

**F. Intergovernmental Revenues**

The Academy currently participates in the State Foundation Basic Aid Program and the State Special Education Program. Revenues from these programs are recognized as operation revenues in the accounting period in which all eligibility requirements are met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements are 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 specified

**PATRIOT PREPARATORY ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

**G. 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 \$1,500. 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 assets or materially extend asset's life are not capitalized.

All assets are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

Leasehold improvements	5-15 years
Equipment	5 years

**H. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Academy first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The Academy did not have any restricted net assets at fiscal year end.

**I. Operating Revenues and Expenses**

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

**J. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**K. Economic Dependency**

The Academy receives nearly 100% of its operating revenue from the Ohio Department of Education. Due to the significance of this revenue source, the Academy is considered to be economically dependent on the State of Ohio Department of Education.

**PATRIOT PREPARATORY ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**3. Changes in Accounting Principles**

For fiscal year 2011, the Academy has implemented Governmental Accounting Standards Board (GASB) Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies".

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. It requires governments to measure derivative instruments, with the exception of synthetic guaranteed investment contracts that are fully benefit-responsive, at fair value in the economic resources measurement focus financial statements. The implementation of this statement did not have an effect on the Academy's financial statements.

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer or postemployment benefit (OPEB) plans (that is, agent employers). The requirements in this statement will allow more agent employers to use the alternative measurement method to produce actuarially based information for financial reporting and clarify that OPEB measures reported by agent multiple-employer OPEB plans and the participating employers should be determined at the same minimum frequency and as of a common date to improve the consistency of reporting with regard to funded status and funding progress information. The implementation of this statement did not have an effect on the Academy's financial statements.

GASB Statement No. 58 provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United State Bankruptcy Code. The requirements in this statement will provide more consistent recognition, measurement, display, and disclosure guidance for governments that file for Chapter 9 bankruptcy. The implementation of this statement did not have an effect on the Academy's financial statements.

**4. Cash and Cash Equivalents**

At fiscal year end June 30, 2011, the Academy's bank balance was \$ 300,008. The entire bank balance was covered by federal depository insurance.

Custodial credit risk for deposits is the risk that in the event of bank failure, the Academy will not be able to recover the deposits. All deposits are collateralized with eligible securities in amounts equal to at 105% of the carrying value of deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at the Federal Reserve Banks or at member banks of the federal reserve system, in the name of the respective depository and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Academy.

The Academy has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Academy or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secure.

**PATRIOT PREPARATORY ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**5. Capital Assets**

There were no capital assets as of June 30, 2011.

**6. Operating Leases**

The Academy entered into a lease contract with Liberty Christian Academy, which commenced on June 1, 2010. This agreement is for facilities located at 4938 Beatrice Drive, Columbus, OH. Lease payments for the facilities were \$30,000 per month from July 1, 2010 through June 2011. Lease payments for the facilities totaled \$330,200 during fiscal year 2011. The lease agreement allows for two year lease renewals with an additional 5% increase per year for each two year extension.

**7. Debt**

The school had no debt activity during fiscal year 2011.

**8. Risk Management**

**A. Insurance Coverage**

The Academy is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. During the fiscal year ending June 30, 2011 the Academy contracted for the following insurance coverage:

Coverage Provided by Guide One Mutual Insurance Company:

General Liability:	
Each Occurrence	\$1,000,000
Aggregate	\$3,000,000

Settled claims have not exceeded the commercial coverage.

**B. Workers' Compensation**

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

**9. Defined Benefit Pension Plans**

**A. School Employees Retirement System**

Plan Description – The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor 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. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under *Employers/Audit Resources*.

**PATRIOT PREPARATORY ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Funding Policy – 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 and death benefits respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Academy's required contributions for pension obligations and death benefits to SERS for the fiscal year ended June 30, 2011 were \$65,805; \$16,205 remains unpaid as of June 30, 2011.

**B. State Teachers Retirement System of Ohio**

Plan Description – The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of the active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – For fiscal year 2011, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

**PATRIOT PREPARATORY ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal year ended June 30, 2011 were \$95,753; 100 percent has been contributed for fiscal year 2011.

**10. Postemployment Benefits**

**A. School Employees Retirement System**

Plan Description – The Academy participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certified retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physician's fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B premium for calendar year 2010 was \$96.40 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by state statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St. Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under *Employers/Audit Resources*.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Sections 105(e). For 2011, 1.43 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned.

Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The 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 Academy's contributions for health care (including surcharge) for the fiscal year ended June 30, 2011 were \$9,400; 100 percent has been contributed for fiscal year 2011.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, this actuarially required allocation was 0.76 percent of covered payroll. The Academy's contributions for Medicare Part B for the fiscal year ended June 30, 2011 were \$3,572; 100 percent has been contributed for fiscal year 2011.

**PATRIOT PREPARATORY ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**B. State Teachers Retirement System of Ohio**

Plan Description – The Academy contributes to the cost sharing, multiple employer defined benefit Health Plan (the “Plan”) administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians’ fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Academy’s contributions for health care for the fiscal year ended June 30, 2011 were \$6,839; 100 percent has been contributed for fiscal year 2011.

**11. Fiscal Agent**

The Academy entered into a contract with Carl W. Shye Jr. to serve as the Chief Fiscal Officer of the Academy. As part of this agreement, the Academy shall compensate Mr. Shye \$60,000 per year.

The Treasurer shall perform all of the following functions while serving as the Chief Fiscal Officer of the Academy:

- Work with Board Treasurer and/or the Business Manager
- Receipt all Academy funds and makes investments;
- Disburse Academy funds upon receipt of a written order and appropriate invoice documentation of designated school official(s);
- Prepare payroll, maintenance of earnings records and deductions records;
- Prepare state and federal reports and issue W-2’s and 1099’s as well as prepare Federal Form 990 and other similar IRS filings;
- Record all financial transactions in accordance with state statutes and as prescribed by the Auditor of State;
- Prepare and submit on a accrual basis a monthly financial accounting of all school funds;
- Provide on-line access to the accounting records, for up to 4 designated officials;
- Prepare the annual financial statements for submission to the Auditor of State and prepare the annual GAAP conversions.
- Provide reports on services for the Academy administrators to present to the Board and assist the Board Treasurer and/or Business Manager in preparing other financial statements;
- Prepare bi-monthly reports as required by ODE and/or the Academy’s sponsor;
- Assist in the preparation of the five-year forecast and ensure the report is submitted in a format approved by ODE;
- Assist the administrators in completing the CCIP budget.

**PATRIOT PREPARATORY ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**12. Purchased Services**

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

Professional & Technical	246,505
Equipment rental & leasing	59,648
Fiscal fees	60,000
Legal services	69,751
Sponsorship fees	63,544
Other Purchased Services	<u>100,266</u>
	<u>599,714</u>

**13. Compensated Absences**

Personal leave benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services rendered and it is probable that the Academy will compensate the employee for the benefits through paid time off. The Academy records a liability for all accumulated unused personal leave when earned by employees.

**14. Contingencies**

**A. Grants**

The Academy receives significant financial assistance from numerous 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 agreement and are subject to an audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability.

**B. School Funding**

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated.

**15. Related Party Transactions**

The Academy leases its facility from the Liberty Christian Academy whose chairman and superintendent, Ms. LaVonne McIlrath, is the wife of Mr. David McIlrath, superintendent of Patriot Preparatory Academy. During the year the Academy paid \$ 330,200 to Liberty Christian Academy.

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

Patriot Preparatory Academy  
Franklin County  
4938 Beatrice Drive  
Columbus, Ohio 43227

To the Board of Directors:

We have audited the basic financial statements of the Patriot Preparatory Academy, Franklin County, (the Academy), a component unit of Reynoldsburg City school District, as of and for the year ended June 30, 2011, and have issued our report thereon dated January 24, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Academy's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Academy's internal control over financial reporting.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2011-01 described in the accompanying schedule of findings to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 2011-02 through 2011-04 described in the accompanying schedule of findings to be significant deficiencies.

### 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 instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2011-04 and 2011-05.

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

We intend this report solely for the information and use of the Board of Directors, management, the Academy's sponsor, and others within the Government. We intend it for no one other than these specified parties.

A handwritten signature in cursive script that reads "Kennedy Cottrell Richards LLC".

Kennedy Cottrell Richards LLC  
January 24, 2012

**PATRIOT PREPARATORY ACADEMY  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2011**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2011-01**

**Material Weakness – Financial Reporting**

The presentation of materially correct financial statements and the related footnotes is the responsibility of management of the Academy. Independent auditors are not part of an entity's internal control structure and should not be relied upon by management to detect misstatements in the financial statements.

Thus, it is important that management develop control procedures related to drafting statements and footnotes that enable management to prevent and detect misstatements in the financial statements and footnotes prior to audit.

Our audit identified material misstatements in the Academy's financial statements that were necessary to present the financial statements in conformity with accounting principles generally accepted in the United States of America. Furthermore, our audit identified several instances in which receipts were not properly posted to the accounting system. These incorrect postings were due to the Treasurer being unable to identify the source of the receipts.

We provided the Treasurer adjusting entries which were posted; subsequently correcting the misstatements. The misstatements are an indicator the Academy needs to strengthen their existing control procedures related to financial reporting.

We recommend the Academy develop policies and procedures to enhance their controls over recording of financial transactions and financial reporting to help ensure the accounting records accurately reflect the activity of the Academy and thereby increasing the reliability of the financial data throughout the year. We also recommend the Academy implement additional procedures over the completeness and accuracy of financial information reported within the Academy's annual report for obvious errors or omissions. The Academy should ensure the person responsible for these reviews has an understanding of the reporting standards and provide training where necessary in order to enhance the reporting of the Academy's financial activity.

Official's response:

*Our preparation of future annual reports will include a review by an independent accountant, possessing an understanding of the required reporting standards. This review will take place immediately after year-end to ensure a timely filing of the annual reports.*

**PATRIOT PREPARATORY ACADEMY  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2011**

**FINDING NUMBER 2011-02**

**Significant Deficiency – Internal Controls over Purchasing**

Management and the Board are charged with the responsibility of developing and maintaining a system of internal controls over purchasing. A sound internal control structure is one capable of providing management with assurance that transactions are processed accurately and completely. To achieve this desired assurance, the internal control structure must promote the timely and consistent application of internal control procedures and require that said procedures be adequately documented to evidence their application. A well developed internal control system over purchasing should include procedures to detect errors and irregularities in a timely manner and ensure expenditures are properly authorized, reported and supported by appropriate documentation.

During our review of the Academy's purchasing transaction cycle we noted the following:

- There is a lack of management oversight over purchasing. The Treasurer is not reviewing purchases prior to check issuance to ensure that the purchase is supported by appropriate documentation, is posted to the proper account, and is for a proper public purpose.
- The Treasurer is not performing a timely review of debit card purchases to ensure the purchases adhere to the Academy's debit card policy.
- During our testing of non-payroll disbursements we noted that four of the sixty-four disbursements tested were not posted properly as to account.
- We noted that the Academy reimbursed Liberty Christian Academy \$28,002 for bills paid by Liberty on behalf of Patriot during the fiscal year for utility expenses and building maintenance expenses. Other than lease payments, the lease agreement between Liberty Christian Academy and Patriot Preparatory Academy is silent as to additional fees to be paid by Patriot Preparatory Academy to Liberty Christian Academy. Additionally, Patriot paid the reimbursement invoices without obtaining copies of the invoices paid by Liberty Christian Academy on behalf of Patriot to ensure the invoice amounts were accurate.
- There is a lack of management oversight over bank to book reconciliations. There is no indication of a review of the bank to book reconciliations by the Treasurer, after preparation by an assistant.

The weaknesses noted above increases the risk that theft, fraud, or errors could occur and not be detected in a timely manner. Furthermore, failure to review disbursements reduces the accountability of Academy funds, reduces the Board's ability to monitor financial activity and make informed financial decisions, increases the likelihood that funds are misappropriated and not detected, and increases the likelihood that the Academy's financial statements are misstated.

We recommend the Academy re-evaluate its internal control processes over non-payroll purchases to ensure that an appropriate fiscal authority is reviewing all purchases to ensure payments are properly supported, are properly posted, are for a proper public purpose, and are in compliance with any applicable laws, regulations, grant agreements, or contract provisions. As a monitoring control, we recommend the monthly bank to book reconciliation be reviewed and evidenced as approved by an individual with appropriate fiscal authority. Furthermore, if Liberty Christian Academy intends to make future payments on behalf of Patriot Preparatory Academy we recommend that the lease agreement be amended to account for these payments and that Liberty Christian Academy provide Patriot Preparatory Academy with copies of the original invoices to support the amount of requested reimbursement.

**PATRIOT PREPARATORY ACADEMY  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2011**

Official's response:

*We will adopt the procedures recommended with regard to the bank to book reconciliation review. The Academy's Board will designate a knowledgeable individual to review the reconciliations presented to the board by the Treasurer. The School does not anticipate any future payments to be made by Liberty Christian Academy on behalf of Patriot Preparatory Academy. However, in the unlikely event that this does happen, the lease agreement will be modified as recommended.*

**FINDING NUMBER 2011-03**

**Significant Deficiency – Internal Controls over Payroll Disbursements**

Management and the Board are charged with the responsibility of developing and maintaining a system of internal controls over payroll disbursements. A sound internal control structure is one capable of providing management with assurance that transactions are processed accurately and completely. To achieve this desired assurance, the internal control structure must promote the timely and consistent application of internal control procedures and require that said procedures be adequately documented to evidence their application. A well developed internal control system over payroll disbursements should include procedures to detect errors and irregularities in a timely manner and ensure disbursements are properly authorized, reported and supported by appropriate documentation.

During our review of the Academy's payroll transaction cycle we noted the following:

- The Academy does not prepare contracts nor is there any formal documentation stating the rate of pay for employees whom are paid an hourly rate.
- The Academy is not maintaining evidence that payroll amounts reported on payroll supporting documentation is compared to the payroll system reports prior to processing of paychecks to ensure that payroll information is correctly entered into the payroll system.
- There is a lack of management oversight over payroll disbursements. The Treasurer is not reviewing payroll disbursements prior to check issuance to ensure that payroll amounts are supported by appropriate documentation and are posted to the proper account. Furthermore, the Treasurer is not ensuring that all payroll disbursements are being processed through the payroll disbursement cycle.
- There is a lack of management oversight over bank to book reconciliations for the payroll account. There is no indication of a review of the bank to book reconciliations by the Treasurer, after preparation by an assistant.
- During our testing of payroll disbursements we noted that the Academy issued a payroll check for one employee in advance of providing services.

The weaknesses noted above increases the risk that fraud or errors could occur and not be detected in a timely manner. Furthermore, failure to review payroll disbursements reduces the accountability of Academy funds, reduces the Board's ability to monitor financial activity and make informed financial decisions, increases the likelihood that funds are misappropriated and not detected, and increases the likelihood that the Academy's financial statements are misstated.

The Academy should issue paychecks to employees after services have been rendered. Issuing paychecks in advance of services provided hinders the Academy's ability to ensure that they are paying employees for actual services rendered. We recommend that the Academy pay all employees and officials after services have been provided to prevent future payments for services not yet rendered. Furthermore, if it is the intention of the Academy's Board to pay employees in advance of services rendered, we recommend that the Board establish a policy regarding payroll advances and approve all advances.

**PATRIOT PREPARATORY ACADEMY  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2011**

We recommend the Academy re-evaluate its internal control processes over payroll disbursements to ensure that an appropriate fiscal authority is reviewing all disbursements to ensure payments are properly supported and are properly posted. Additionally, we recommend that the Academy prepare contracts for all hourly employees. As a monitoring control, we recommend the monthly bank to book reconciliation be reviewed and evidenced as approved by an individual with appropriate fiscal authority. Furthermore, we recommend that all payroll disbursements be processed through the payroll transaction cycle.

Official's response:

*Currently each payroll is prepared by the Treasurer from information supplied by the Academy's business manager. After preparation, the Treasurer provides the payroll register to the business manager for review to ensure that there were no errors resulting from the transfer of information between offices. Once this process is completed the payroll process is finalized with the preparation of payments (direct deposits and/or paychecks). We will require the Treasurer to review and indicate approval of all payrolls in writing, prior to the completion of the payroll process. Additionally, the board will now require signed and executed contracts for all employees, hourly or otherwise.*

**FINDING NUMBER 2011-04**

**Significant Deficiency/Noncompliance – Board Stipend and Employee Bonus Disbursements**

26 U.S.C Section 3402, 226 U.S.C. Section 3102(a), Ohio Rev. Code Section 5747.06, Ohio Rev. Code Section 145.51, Ohio Rev. Code Section 3307.26, Ohio Rev. Code Section 3309.23 and Ohio Rev. Code Section 9.42 requires an employer to deduct and withhold federal income tax, Medicare tax, Ohio income tax, Ohio Public Employers retirement contributions, State Teacher Employers retirement contributions, School Employers retirement contributions and municipal income tax from the compensation of all employees. Additionally, 26 C.F.R. Section 1.6041-2 provides that wages, as defined in section 3401 are to be reported on a Form W-2.

In fiscal year 2011, the Academy's Board of Directors approved a board stipend of \$125 per board meeting per board member. The total board stipends paid by the Academy during the fiscal year was \$7,375. As identified in finding 2011-03, these payments were processed through the non-payroll disbursement cycle; as such the Academy did not withhold any deductions from the payments, as required. The Academy did not have W-2 forms on file for the six Board of Directors members. Additionally, the Board approved bonuses totaling \$50,643 be paid to Academy employees during fiscal year 2011. As identified in finding 2011-03, the bonuses were also processed through the non-payroll cycle; as such the Academy did not withhold any deductions from the bonuses, as required. Furthermore, the Academy processed a payment of \$800 for coaching services provided by an Academy employee through the non-payroll cycle; as such the Academy did not withhold an deductions form this payment' as required. The Academy did prepare Form 1099's for these payments.

We recommend all Board members prepare a W-4 form, IT-4 Form and complete appropriate retirement and city withholding forms. The Academy should utilize these forms to withhold the required deductions from all employees pay. We further recommend the Academy remit the withholdings to the corresponding agent and issue a W-2 for each Board of Director member. In addition, we recommend that all compensation, including bonuses, paid to Academy employees be processed through the payroll cycle and all payroll amounts be included on the employee's W-2.

Official's response:

*We will modify our procedures to ensure all methods of compensation for employees and board members are subject to withholding of taxes and retirement as required.*

**PATRIOT PREPARATORY ACADEMY  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2011**

**FINDING NUMBER 2011-05**

**Noncompliance – Community School Sponsorship Contract**

Patriot Preparatory Academy has entered into a sponsorship contract with Reynoldsburg City School District. The sponsorship contract identifies specific requirements the Academy must adhere to in order to remain open as a community school.

Our audit identified noncompliance with a requirement identified in the sponsorship contract between Patriot Preparatory Academy and Reynoldsburg City School District, as follows:

Section 8(c) (vi) of the sponsorship contract states that the Fiscal Officer of Patriot Preparatory Academy shall “serve as clerk for the Governing Authority and perform all duties associated with such position, including but not limited to taking and preparing minutes and providing the appropriate notices under the Ohio’s open meeting (sunshine) law”. We noted that the Treasurer of Patriot Preparatory attended one of the twelve board meetings held during fiscal year 2011; as such, the Treasurer was unable to fulfill the required duties outlined in the sponsorship contract.

We recommend that the Academy take steps to ensure they are in compliance with all of the requirements set forth in the sponsorship contract; specifically the requirement identified above.

Officials Response:

*The Academy understands the importance of adhering to the requirements set forth in their Sponsorship Contract. The Treasurer will begin attending the monthly Board meetings.*

### Independent Accountants' Report on Applying Agreed-Upon Procedures

Patriot Preparatory Academy  
Franklin County  
4938 Beatrice Drive  
Columbus, Ohio 43227

To the Board of Directors:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether Patriot Preparatory Academy (the Academy) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We inquired with the Board's management regarding the aforementioned policy. They stated they have not yet adopted an anti-harassment policy. The Board should adopt a policy as required by Ohio Rev. Code 3313.666.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Directors, management, the Academy's sponsor, and others within the Government. We intend it for no one other than these specified parties.

*Kennedy Cottrell Richards LLC*

Kennedy Cottrell Richards LLC  
January 24, 2012



# Dave Yost • Auditor of State

**PATRIOT PREPARATORY 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 17, 2012**