

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

**BASIC FINANCIAL STATEMENTS
For The Fiscal Year Ended June 30, 2012**



Dave Yost • Auditor of State

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

We have reviewed the *Independent Accountants' Report* of the Patriot Preparatory Academy, Franklin County, prepared by Kennedy Cottrell Richards LLC, for the audit period July 1, 2011 through June 30, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

April 15, 2013

Patriot Preparatory Academy
(A Component Unit of Reynoldsburg City School District)
FRANKLIN COUNTY, OHIO

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INDEPENDENT ACCOUNTANTS' 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, Ohio (the Academy), a component unit of the Reynoldsburg City School District, as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Ohio Administrative Code § 117-2-03 (B) requires the Academy to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash financial position of Patriot Preparatory Academy, Franklin County, Ohio, as of June 30, 2012, and the change in its cash basis financial position thereof for the year then ended in conformity with the accounting basis Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2013, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

We conducted our audit to opine on the Academy's financial statements taken as a whole. Management's Discussion and Analysis includes tables of net assets and changes in net assets. The Schedule of Federal Awards Receipts and Expenditures (the Schedule) is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These tables and the Schedule provide additional information, but are not part of the basic financial statements. However these tables and the Schedule are management's responsibility, and were derived from and relate directly to the underlying accounting and other records used to prepare the basic

financial statements. These tables and the schedule were subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion and Analysis, and we express no opinion or any other assurance on it.

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
March 19, 2013

PATRIOT PREPARATORY ACADEMY
(A Component Unit of Reynoldsburg City School District)
Franklin County, Ohio

Management's Discussion and Analysis
For the Year Ended June 30, 2012
(Unaudited)

The management's 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, 2012. 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 the financial statements to enhance their understanding of the Academy's financial performance.

Key Financial Highlights of the Academy

Key financial highlights for the Academy are as follows:

- The total assets of the Academy were \$772,627 as of June 30, 2012.
- The Academy's net assets increased by \$472,619 during the fiscal year.

Using the Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the Academy's cash basis of accounting.

Report Components

The statement of net assets and the statement of cash receipts, disbursements, and changes in net assets provide information about the Academy as a whole.

The management's discussion and analysis is intended to serve as an introduction to the Academy's basic financial statements. The Academy's basic financial statements are comprised of two components: the financial statements and the notes to the financial statements.

The statement of net assets and the statement of cash receipts, disbursements, and changes in net assets reflect how the Academy did financially during the fiscal year. The change in net assets is important because it tells the reader whether the cash position of the Academy has increased or decreased during the period.

The notes to the financial statements are an integral part of the basic financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The Academy has elected to present its financial statements using the cash basis of accounting. This basis of accounting is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). Under the Academy's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

PATRIOT PREPARATORY ACADEMY
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Management's Discussion and Analysis
For the Year Ended June 30, 2012
(Unaudited)

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

Financial Analysis

In fiscal year 2011, the Academy prepared its basic financial statements in accordance with accounting principles generally accepted in the United States of America. However, in fiscal year 2012 the Academy decided to prepare the financial statements on the cash basis of accounting. The fiscal year 2011 amounts for tables 1 and 2 have been restated to reflect the change in the basis of accounting.

Table 1 provides a summary of the Academy's net assets at fiscal year-end.

Table 1
Net Assets at Year End

	2012	Restated 2011
Assets:		
Current Assets	\$ 772,627	\$ 300,008
Total Assets	772,627	300,008
Net Assets:		
Restricted	94,331	3,374
Unrestricted	678,296	296,634
Total Net Assets	\$ 772,627	\$ 300,008

As mentioned previously, net assets increased \$472,619 or 158 percent from 2011. Table 2 provides further detail on the increase.

PATRIOT PREPARATORY ACADEMY
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Franklin County, Ohio

Management's Discussion and Analysis
For the Year Ended June 30, 2012
(Unaudited)

Financial Analysis

Table 2 shows the change in net assets for the fiscal year ended June 30, 2012.

Table 2
Changes in Net Assets

	2012	Restated 2011
Operating Receipts:		
State Foundation	\$ 3,363,996	\$ 2,583,094
Charges for Services	163,683	134,799
Other	189,679	165,405
Total Operating Receipts	3,717,358	2,883,298
Operating Disbursements:		
Salaries and Wages	1,838,053	933,794
Fringe Benefits	517,269	556,986
Purchased Services	739,977	727,441
Materials and Supplies	491,113	336,449
Rent	360,000	330,000
Other	136	-
Total Operating Disbursements	3,946,548	2,884,670
Operating Loss	(229,190)	(1,372)
Nonoperating Receipts		
Federal and State Grants	701,809	301,380
Total Nonoperating Receipts	701,809	301,380
Change in Net Assets	472,619	300,008
Net Assets, Beginning of Year	300,008	-
Net Assets, End of the Year	\$ 772,627	\$ 300,008

The increases in Foundation receipts and operating disbursements are primarily related to the 18.5 percent increase in enrollment during fiscal year 2012. The Academy also had a significant increase in Federal and State grant receipts.

PATRIOT PREPARATORY ACADEMY
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Management's Discussion and Analysis
For the Year Ended June 30, 2012
(Unaudited)

Budget Highlights

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

Contacting the Academy

This financial report is designed to provide a general overview of the finances of the Academy and to show the Academy's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to the Treasurer of the Academy, 4938 Beatrice Drive, Columbus, Ohio 43227-2113.

**PATRIOT PREPARATORY ACADEMY
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FRANKLIN COUNTY, OHIO**

**STATEMENT OF NET ASSETS - CASH BASIS
AS OF JUNE 30, 2012**

Assets	
Cash and Cash Equivalents	\$ 772,627
Total Assets	<u>772,627</u>
 Net Assets	
Restricted for:	
Federal and State Grants	94,331
Unrestricted	<u>678,296</u>
Total Net Assets	<u><u>\$ 772,627</u></u>

See accompanying notes to the basic financial statements.

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

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES
IN NET ASSETS - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Operating Receipts:	
State Foundation	\$ 3,363,996
Charges for Services	163,683
Other	189,679
Total Operating Receipts	<u>3,717,358</u>
Operating Disbursements:	
Salaries and Wages	1,838,053
Fringe Benefits	517,269
Purchased Services	739,977
Materials and Supplies	491,113
Rent	360,000
Other	136
Total Operating Disbursements	<u>3,946,548</u>
Operating Loss	<u>(229,190)</u>
Non-Operating Receipts:	
Federal and State Grants	<u>701,809</u>
Total Non-Operating Receipts	<u>701,809</u>
Change in Net Assets	472,619
Net Assets at Beginning of Year	<u>300,008</u>
Net Assets at End of Year	<u>\$ 772,627</u>

See accompanying notes to the basic financial statements.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 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 Academy 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 22 non-certified and 44 certified employees serving 546 students.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.B, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. The Academy also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The Academy has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989. Following are the more significant of the Academy's accounting policies.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

The Academy used a single enterprise presentation for its financial statements. The Academy's basic financial statements consist of a Statement of Net Assets, and a Statement of Receipts, Disbursements, and Changes in Net Assets. These statements are prepared on the cash basis of accounting as further described in Note 2 B.

Operating receipts are those revenues that are generated directly from the primary activity of the School. Operating disbursements are necessary costs incurred to provide the goods or services that are the primary activities of the School. All receipts and disbursements not meeting this definition are reported as non-operating.

B. 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 cash basis of accounting. Receipts are recorded in the Academy's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements

C. 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, except House Bill 364, which took effect April 8, 2003, added Ohio Revised Code Section 3314.03 (11)(d), which states that community schools must comply with Ohio Revised Code Section 5705.391. This requires each community school to submit to the Ohio Department of Education (ODE) a five year forecast no later than October 31 of each year.

D. Cash and Cash Equivalents

For purposes of the presentation on the statement of net assets, investments with maturities of three months or less at the time they are purchased by the Academy are considered to be cash equivalents. Investments with maturities greater than three months at the time they are purchased are reported as investments. The Academy had no investments during the period ended June 30, 2012.

PATRIOT PREPARATORY ACADEMY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors or laws or other governments, or are imposed by law through constitutional provisions or enabling legislation. The Academy had no restricted assets at fiscal year-end.

F. Inventory and Prepaid Items

The Academy reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

G. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

H. Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. These items are not reflected as liabilities in the accompanying financial statements.

I. Employer Contributions to Cost-Sharing Pension Plans

The Academy recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 10 and 11, the employer contributions include portions for pension benefits and for postretirement health care benefits.

J. Accrued Liabilities and Long-Term Obligations

The Academy's cash basis financial statements do not report liabilities for accrued liabilities and long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure is reported at inception. Lease payments are reported when paid.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Net Assets

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 had \$94,331 in restricted net assets at fiscal year end.

NOTE 3 – CHANGE IN BASIS OF ACCOUNTING AND RESTATEMENT OF NET ASSETS

A. Change in Basis of Accounting

For fiscal year 2012, the District ceased to report using generally accepted accounting principles and reported on the cash basis as described in Note 2B.

B. Restatement of Net Assets

The implementation of this change had the following effects on net assets of the Academy as they were previously reported.

	Net Assets
Net Assets June 30, 2011	\$ 96,345
Eliminate Current Assets	(65,066)
Eliminate Current Liabilities	268,729
Adjusted Net Assets June 30, 2011	\$ 300,008

NOTE 4 – COMPLIANCE

Ohio Administrative Code, Section 117-2-03 (B), requires the Academy to prepare its annual financial report in accordance with generally accepted accounting principles. However, the Academy prepared its financial statements on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The Academy can be fined and various other administrative remedies may be taken against the Academy.

NOTE 5 – CASH AND CASH EQUIVALENTS

At fiscal year end June 30, 2012, the carrying amount of the Academy's deposits was \$772,627, and the bank balance was \$831,688. The entire bank balance was covered by federal depository insurance.

PATRIOT PREPARATORY ACADEMY
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FRANKLIN COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 6 – PURCHASED SERVICES

For the fiscal year ended June 30, 2012, purchased services disbursements were are as follows:

Professional and Technical	\$	132,255
Repairs and Maintenance		130,095
Sponsorship		107,260
Dues and Fees		42,007
Fiscal Fees		66,060
Utilities		62,041
Legal Services		44,795
Equipment Rental and Leasing		11,083
Travel/Meeting Expense		19,705
Communications		14,555
Transportation		19,603
Insurance		8,689
Mail/Messenger		883
Other		80,945
	\$	<u>739,976</u>

NOTE 7 – OPERATING LEASES

The Academy entered into a lease contract with Liberty Christian Academy for school facilities located at 4938 Beatrice Drive, Columbus, OH. The lease term is for the period of June 1, 2011 through June 1, 2026, with required payments of \$30,000 per month. Lease payments for the facilities totaled \$360,000 during fiscal year 2012. The lease agreement allows for two year lease renewals with an additional 5% increase per year for each two year extension.

The Academy has entered into a lease agreement with Konica Minolta Business Solutions for the lease of a copier. The term of the lease is for 60 months and commenced on August 5, 2011, with required payments of \$543 per month. The Academy also entered into a corresponding maintenance agreement for the copier for an additional \$197 per month. Total payments related to these agreements during the fiscal year totaled \$13,417.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 8 – SPONSORSHIP AGREEMENT

The Academy has entered into a sponsorship agreement with Reynoldsburg City School District (the Sponsor), its Sponsor, whereby, the Sponsor shall receive compensation for services provided to the Academy. The Sponsor shall provide the Academy Treasurer with fiscal oversight and administrative support related to the following:

- A. Support to ensure that the financial records of the Academy are maintained in the same manner as are financial records of school districts, pursuant to rules of the Auditor of State.
- B. Compliance with the policies and procedures regarding internal financial control of the Academy.
- C. Compliance with the requirements and procedures for financial audits by the Auditor of State.

During the fiscal year, the Academy paid the Sponsor \$100,920 in sponsorship fees.

NOTE 9 – 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, 2012, the Academy contracted with Best Hoovier McTeague Insurance Services for the following insurance coverage:

Coverage	Limits of Coverage
General liability:	
Each occurrence	\$ 1,000,000
Aggregate	2,000,000
Umbrella liability:	
Each occurrence	1,000,000
Aggregate	1,000,000
Business auto:	
Each occurrence	1,000,000
Employee benefits liability:	
Each occurrence	1,000,000
Aggregate	1,000,000

There was no significant reduction in coverage from the prior year. Settlement amount have not exceeded coverage amounts in each of the past three years.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 9 – RISK MANAGEMENT (Continued)

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.

NOTE 10 – 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, under *Employers/Audit Resources*.

Funding Policy - Plan members are required to contribute 10% of their annual covered salary and the Academy is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ending June 30, 2012, the allocation to pension and death benefits is 12.7%. The remaining 1.3% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The Academy's contributions for pension obligations to SERS for the fiscal years ended June 30, 2012 and 2011 were \$101,185 and \$65,805, respectively, equal to the required contributions for each year

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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 10 – DEFINED BENEFIT PENSION PLANS (Continued)

Plan Options – New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit”, the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. 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. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. 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.

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member’s defined benefit is determined by multiplying 1% of the member’s final average salary by the member’s years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

PATRIOT PREPARATORY ACADEMY
(A Component Unit of Reynoldsburg City School District)
FRANKLIN COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 10 – DEFINED BENEFIT PENSION PLANS (Continued)

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3% of the original base amount for DB Plan participants.

The DB and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

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 members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2012, were 10% of covered payroll for members and 14% for employers.

The Academy's required contributions for pension obligations for the fiscal years ended June 30, 2012, and 2011 were \$135,372 and \$95,753, respectively, equal to the required contributions for each year.

PATRIOT PREPARATORY ACADEMY
(A Component Unit of Reynoldsburg City School District)
FRANKLIN COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 11 – POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Postemployment Benefits – In addition to a cost-sharing multiple-employer defined benefit pension plan the School Employees Retirement System of Ohio (SERS) administers two cost-sharing, multiple employer postemployment benefit plans.

Medicare Part B Plan – The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2012 was \$99.90 for most participants, but could be as high as \$319.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2012, the actuarially required allocation is .75%. The Academy's contributions for the years ended June 30, 2012 and 2011 were \$5,975 and \$3,572, respectively, equal to the required contributions for each year.

Health Care Plan – ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the year ended June 30, 2012, the health care allocation is .55%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. State law provides that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The Academy's contributions assigned to health care, including the surcharge, for the years ended June 30, 2012 and 2011 were \$11,482 and \$9,400, respectively, equal to the required contributions for each year.

PATRIOT PREPARATORY ACADEMY
(A Component Unit of Reynoldsburg City School District)
FRANKLIN COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 11 – POSTEMPLOYMENT BENEFITS (Continued)

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status. The financial reports of SERS' Health Care and Medicare B plans are included in its *Comprehensive Annual Financial Report*. The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

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 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 2012, STRS Ohio allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. The Academy's contributions for health care for the fiscal year ended June 30, 2012 and 2011 were \$10,413 and \$6,839, respectively, equal to the required contributions for each year.

NOTE 12 – FISCAL AGENT

On July 1, 2010, the Academy entered into a contract with Carl W. Shye Jr. to serve as the Chief Fiscal Officer of the Academy. The initial term of the contract was for a one-year period, with required payments of \$5,000 per month (\$60,000 annually). Upon expiration of the initial term, the contract automatically renews for successive one-year terms, unless and until terminated by one of the parties.

During the fiscal year, the Academy terminated the contract with Carl W. Shye Jr. On February 1, 2012, the Academy entered into a contract with Jarvis & Associates, LLC to provide school treasurer services. The term of the contract was for the period February 1, 2012 through June 30, 2013, with required payments of \$3,400 per month.

Total payments to Carl W. Shye Jr. and Jarvis & Associates, LLC during the fiscal year were \$35,000 and \$17,000, respectively.

PATRIOT PREPARATORY ACADEMY
(A Component Unit of Reynoldsburg City School District)
FRANKLIN COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 13 – CONTIGENCIES

A. Grants

The Academy received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to 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.

NOTE 14 – 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 \$360,000 to Liberty Christian Academy.

**PATRIOT PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2012**

<u>Federal grantor/Pass through grantor/Program title</u>	<u>Federal CFDA Number</u>	<u>Grant Year</u>	<u>Receipts</u>	<u>Expenditures</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<i>Pass-through Ohio Department of Education:</i>				
Nutrition Cluster:				
National School Lunch Program	10.555	2012	84,575	84,575
Total U.S. Department of Agriculture			<u>84,575</u>	<u>84,575</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Pass-through Ohio Department of Education:</i>				
Title I Cluster				
Title I Grants to Local Education Agencies	84.010	2012	327,846	253,980
Total Title I Cluster			<u>327,846</u>	<u>253,980</u>
Special Education-Grants to States	84.027	2012	134,315	113,837
Total Special Education- Grants to States			<u>134,315</u>	<u>113,837</u>
Education Technology State Grants	84.318	2012	-	2,156
Total Education Technology State Grants			<u>-</u>	<u>2,156</u>
Improving Teacher Quality State Grants	84.367	2011	285	-
Improving Teacher Quality State Grants	84.367	2012	2,000	2,000
Total Improving Teacher Quality State Grants			<u>2,285</u>	<u>2,000</u>
ARRA - State Fiscal Stabilization Fund	84.394	2011	-	3,323
Total ARRA - State Fiscal Stabilization Fund			<u>-</u>	<u>3,323</u>
Education Jobs Fund	84.410	2012	147,746	144,356
Total Education Jobs Fund			<u>147,746</u>	<u>144,356</u>
Total U.S. Department of Education			<u>612,192</u>	<u>519,652</u>
Totals			<u>\$ 696,767</u>	<u>\$ 604,227</u>

See accompanying notes to the Schedule of Federal Awards Receipts and Expenditures.

**PATRIOT PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR JUNE 30, 2012**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) reports the Patriot Preparatory Academy's (the Academy's) federal award programs' receipts and disbursements. The schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

The Academy commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the Academy assumes it expends federal monies first.

**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 financial statements of Patriot Preparatory Academy, Franklin County, Ohio (the Academy), a component unit of Reynoldsburg City School District as of and for the year ended June 30, 2012, and have issued our report thereon dated March 19, 2013, wherein we noted the Academy uses a comprehensive accounting basis other than generally accepted accounting principles. 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 opinions on the financial statements, but not for the purpose of opining on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Academy's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency in internal control over financial reporting. We consider finding 2012-02 to be a significant deficiency. 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.

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 and questioned costs as items 2012-01 and 2012-03.

Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other
Matters Required by
Government Auditing Standards
Page 2

The Academy's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. 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, federal awarding agencies and pass-through entities, and others within the Academy. We intend it for no one other than these specified parties.

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
March 19, 2013

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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

To the Board of Directors:

Compliance

We have audited the compliance of Patriot Preparatory Academy, Franklin County, Ohio (the Academy), a component unit of the Reynoldsburg City School District, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the Academy's major federal programs for the year ended June 30, 2012. The *summary of auditor's results* section of the accompanying schedule of findings and questioned costs identifies the Academy's major federal programs. The Academy's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the Academy's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Academy's compliance with these requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Academy's compliance with these requirements.

As described in findings 2012-05 through 2012-07 in the accompanying schedule of findings and questioned costs, the Academy did not comply with requirements regarding eligibility, allowable costs/cost principles, and level of effort applicable to its Title I major federal program. Compliance with these requirements is necessary, in our opinion, for the Academy to comply with requirements applicable to this program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Patriot Preparatory Academy complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The Academy's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Academy's internal control over compliance with the requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Academy's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2012-05 through 2012-07 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a federal program compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2012-04 and 2012-08 to be significant deficiencies.

The Academy's responses to the findings we identified are described in the accompanying schedule of findings and questioned costs. 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, federal awarding agencies and pass-through entities, and others within the Academy. We intend it for no one other than these specified parties.



Kennedy Cottrell Richards LLC
March 19, 2013

**PATRIOT PREPARATORY ACADEMY
FRANKLIN COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505
JUNE 30, 2012**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material internal control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	Yes
(d)(1)(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	Yes
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Qualified
(d)(1)(vi)	Are there any reportable findings under § .510(a) of Circular A-133?	Yes
(d)(1)(vii)	Major Programs (list):	Title I Cluster CFDA # 84.010 Education Jobs Fund CFDA # 84.410
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All others
(d)(1)(ix)	Low Risk Auditee?	No

**PATRIOT PREPARATORY ACADEMY
FRANKLIN COUNTY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**JUNE 30, 2012
(Continued)**

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

FINDING NUMBER 2012-01

Noncompliance– Basis of Accounting

Ohio Administrative Code Section 117-2-03 (B) states “All counties, cities and school districts, including educational service centers and community schools, shall file annual financial reports which are prepared using generally accepted accounting principles.”

The Academy prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. To be in compliance with the Ohio Administrative Code, the Academy should use generally accepted accounting principles in future annual financial reports.

Officials Response:

The Academy recognizes that that Ohio Administrative Code Section 117-2-03(B) requires all community schools to prepare its financial statements, including annual financial reports, using generally accepted accounting principles (“GAAP”). Beginning immediately, the Academy will utilize GAAP in future all annual financial reports.

FINDING NUMBER 2012-02

Significant Deficiency – Schedule of Federal Awards Receipts and Expenditures Reporting

The compilation and presentation of materially correct financial statements and the related supplementary information is the responsibility of management. It is important that management develop control procedures related to drafting financial statements and supplementary information that enable management to prevent and detect potential misstatements prior to audit. It is also important to note that independent auditors are not part of an entity’s internal control structure and should not be relied upon by management to detect misstatements.

We noted misstatements in the Schedule of Federal Awards Receipts and Expenditures, where the Academy understated receipts and overstated expenditures for several federal programs. We provided adjusting entries to the Schedule of Federal Awards Receipts and Expenditures to management who subsequently corrected the misstatements. The misstatements are an indicator the Academy did not have sufficient internal control procedures in place.

We recommend the Academy devise and implement control procedures related to financial reporting that enable management to identify, prevent, detect, and correct potential misstatements in both the financial statements and supplementary information prior to the start of the audit. Control procedures could include a separate review and analysis of the information to ensure the Schedule of Federal Awards Receipts and Expenditures is presented in accordance with state and federal reporting requirements.

**PATRIOT PREPARATORY ACADEMY
FRANKLIN COUNTY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**JUNE 30, 2012
(Continued)**

Officials Response:

The Academy acknowledges the finding of misstatements in its Schedule of Federal Awards Receipts and Expenditures for several federal programs. The Academy believes that most, if not all, of said misstatements occurred under the supervision of the Academy's prior Treasurer, who was removed from the position for cause. Currently, the Academy's Business Manager periodically submits a reporting of expenditures to be charged to the various federal grant programs to the Academy's Treasurer. The Treasurer reviews the requested expenditures and determines whether each expenditure can be charged to a federal grant program. The Business Manager is then notified by the Treasurer whether each expenditure is approved or disapproved.

In order to better identify, prevent, detect, and correct potential misstatements, the Academy will adopt a policy under which the Academy will review the allocations of receipts and expenditures under federal programs with its outside federal grant consultant once per quarter.

FINDING NUMBER 2012-03

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 from July 1, 2011 to January 31, 2012 attended one of the five board meetings and the Treasurer of Patriot Preparatory from February 1, 2012 through June 30, 2012 attended three of the four board meetings held that period; 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 acknowledges that in the past its Treasurer has been absent at Governing Authority meetings. As noted above in Response to Finding No. 2012-02, the Academy removed its prior Treasurer in January 2012. Since that time, the Academy's current Treasurer has attended a substantial majority of Governing Authority meetings. The Academy's Sponsor has also agreed to allow the Treasurer to attend Governing Authority board meetings via teleconference or videoconference in the event of extenuating circumstances, which should virtually eliminate the Treasurer's absences at board meetings. Moreover, the Academy's new Treasurer, who will assume the position at the start of the 2013-2014 school year, is a current local employee of the Academy. The Academy will explicitly state in his job description and contract that attendance at all Governing Authority board meetings is mandatory.

**PATRIOT PREPARATORY ACADEMY
FRANKLIN COUNTY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**JUNE 30, 2012
(Continued)**

3. FINDINGS FOR FEDERAL AWARDS

Finding Number	2012-04
CFDA Title and Number	Title I - CFDA # 84.010
Federal Award Number/Year	2012
Federal Agency	Department of Education
Pass-Through Agency	Ohio Department of Education

Significant Deficiency: Title I Eligibility Determinations

Title I, Section 1113 of the Elementary School and Secondary Education Act (ESEA) (20 USC 6313) states that Title I, Part A funds received under this part shall use funds received under this part only in a school attendance area in which the percentage of children from low-income families is at least as high as the percentage of children from low-income families in the local educational agency as a whole.

To identify eligible school attendance areas, the local educational agency shall use the same measure of poverty, which measure shall be the number of children ages 5 through 17 in poverty counted in the most recent census data approved by the Secretary, the number of children eligible for free and reduced priced lunches under the Richard B. Russell National School Lunch Act, the number of children in families receiving assistance under the State program funded under part A of title IV of the Social Security Act, or the number of children eligible to receive medical assistance under the Medicaid program, or a composite of such indicators, with respect to all school attendance areas in the local educational agency.

For fiscal year 2012, the Academy elected to measure its poverty level by the number of children eligible for free and reduced priced lunches under the Richard B. Russell National School Lunch Act.

7 CFR 245.6 provides that each child receiving free and reduced lunches must annually submit an application to the School. The School must then certify a child's family income and family size and place him/her within income eligibility standards issued by the Office of Food Nutrition Services. The application must be approved and maintained on file.

The Academy's Cafeteria Manager manually determines eligibility based on the application as evidenced by signing the application. Additionally, the Cafeteria Assistant reviews all applications to determine the accuracy of the eligibility determination as evidenced by signing the application.

During our testing we noted that four of the fifty one applications that we tested were not signed by the Cafeteria Manager and five of the fifty one applications were not signed by the Cafeteria Assistant.

We recommend management implement monitoring control procedures capable of ensuring that eligibility determinations are completed, adequately supported, and properly reviewed, and that reviews are adequately documented..

**PATRIOT PREPARATORY ACADEMY
FRANKLIN COUNTY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**JUNE 30, 2012
(Continued)**

Officials Response and Corrective Action Plan:

The Academy acknowledges that approximately ten percent of its federal school lunch program applications were not signed by two reviewers. The Academy will adopt an internal policy to ensure compliance with federal statutes and regulations governing Title I eligibility for free and reduced school lunch programs. Under our current policy, the Academy's Cafeteria Manager manually determines eligibility based on the representations made in the application, which is also reviewed by the Cafeteria Assistant. Both are required to sign the applications acknowledging their review. In order to ensure that all applications are reviewed properly, the Academy will adopt a policy requiring its Electronic Management Information System ("EMIS") Coordinator to review each application to ensure it contains two verifying signatures.

Finding Number	2012-05
CFDA Title and Number	Title I - CFDA # 84.010
Federal Award Number/Year	2012
Federal Agency	Department of Education
Pass-Through Agency	Ohio Department of Education

Material Weakness and Noncompliance: Eligibility

In a targeted assistance school, funds available under Title I Part A may be used only for programs that are designed to help participating children meet the State's student academic achievement standards expected of all children. Allowable activities in these schools include, but are not limited to, instructional programs, counseling, mentoring, other pupil services, college and career awareness and preparation, services to prepare students for the transition from school to work, services to assist preschool children in the transition to elementary school programs, parental involvement activities, and professional staff development. If health, nutrition, and other social services are not otherwise available from other sources to participating children, Part A funds may be used as a last resort to provide such services. Each Title I school determines the actual program it will provide (Title I, Section 1115 of ESEA (20 USC 6315)).

In general, eligible children are identified on the basis of multiple, educationally related, objective criteria established by the school. From the pool of eligible children, a targeted assistance school selects those children who have the greatest need for special assistance to receive Part A services.

Each school conducting a program under this section shall assist participating children selected in accordance with this section to meet the State's proficient and advanced levels of achievement by the coordinating of resources provided under this part with other resources; and reviewing, on an ongoing basis, the progress of participating children and revising the targeted assistance program, if necessary, to provide additional assistance to enable such children to meet the State's challenging student academic achievement standards.

According to Academy management, during the fiscal year, to identify students eligible for the program, all students were evaluated based on two academically related criteria: OAA scores and MAP assessments. The Academy was able to provide the test scores used in the evaluation for all students; however the Academy could not provide documentation of the specific students that were identified as

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eligible for Title I services based on these criteria and could not provide documentation showing that only those students identified as eligible received services under the Title I program.

We recommend that adequate documentation be maintained to support the Academy's evaluation and identification of students eligible for services and to document that Title I services were provided only to eligible students.

Officials Response and Corrective Action Plan:

As a targeted assistance school, the Academy acknowledges that it is required to track and report Title I eligible students and their participation in Title I programs. The Academy will review its documentation policy as it relates to Title I Part A programs to ensure that Title I eligible students are clearly identified, and that only Title I students receive services under the Title I program. Specifically, the Academy will implement a policy under which teachers must periodically submit student ranking reports and teacher logs of Title I program activities to their Building Principal. The teacher logs will contain an entry for each activity (listed by date and time), which describes the specific Title I qualified program, activity or service that was provided and includes a list of participating Title I eligible students. The Building Principals will review the ranking reports and teacher logs to ensure that Title I services are provided only to eligible students. The Academy's Business Manager and Superintendent will review the ranking reports and teacher logs semi-annually during their meeting with the Academy's outside federal program consultant.

The Academy expects to qualify for school wide assistance beginning in the 2013-2014 school year, therefore, the burden placed on employees and teachers to track Title I activities and eligible students is expected to be greatly reduced by the change.

Finding Number	2012-06
CFDA Title and Number	Title I - CFDA # 84.010
Federal Award Number/Year	2012
Federal Agency	Department of Education
Pass-Through Agency	Ohio Department of Education

Material Weakness/Noncompliance/Questioned Cost: Allowable Costs/Cost Principles

OMB Circular A-87, Attachment B, Section 8(h)(4), states, in part:

Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi annually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

FINDING NUMBER 2012-06 (continued)

Furthermore, OMB Circular -87, Attachment B, Section 8(h)(4), states, in part:

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Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation....Such documentary support will be required where employees work on:

- (a) More than one Federal award,
- (b) A Federal award and a non Federal award,
- (c) An indirect cost activity and a direct cost activity,
- (d) Two or more indirect activities which are allocated using different allocation bases, or
- (e) An unallowable activity and a direct or indirect cost activity.

Personnel activity reports or equivalent documentation must meet the following standards:

- (a) They must reflect an after the fact distribution of the actual activity of each employee,
- (b) They must account for the total activity for which each employee is compensated,
- (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
- (d) They must be signed by the employee.

We noted the Academy did not certify that employees worked solely on the Title I program, where applicable. In addition, the Academy's personnel activity reports did not document the actual time spent on Title I activities, rather the percentage of students in the regular classroom that qualified for Title I services.

Due to the lack of appropriate supporting documentation for payroll charges, a questioned cost is issued for the total amount of payroll and payroll-related costs charged to the Title I program for the fiscal year of \$238,443.

We recommend the Academy maintain appropriate documentation to support payroll and payroll-related charges to federal grant programs, as noted above.

Officials Response and Corrective Action Plan:

The Academy acknowledges that as a targeted assistance school, the Academy may only utilize Title I funds for employee time spent on Title I activities and/or services. The Academy will review and revise the personnel activity reports utilized by employees to track their allocation of time spent on federal programs. Specifically, the Academy will begin tracking actual time spent on Title I activities by revising its reporting forms to include: (1) actual activity of each employee, including an hourly breakdown by activity; and (2) an accounting of the total activity for which each employee is compensated. The Academy's policy will be reviewed to ensure that the personnel activity reports are prepared at least monthly to coincide with pay periods and are signed by the employee.

Finding Number	2012-07
CFDA Title and Number	Title I - CFDA # 84.010
Federal Award Number/Year	2012
Federal Agency	Department of Education
Pass-Through Agency	Ohio Department of Education

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Material Weakness/Noncompliance: Level of Effort

Section 1120A(b) of the Elementary and Secondary Education Act states “A State educational agency or local educational agency shall use Federal funds received under this part only to supplement the funds that would, in the absence of such Federal funds, be made available from non Federal sources for the education of pupils participating in programs assisted under this part, and not to supplant such funds.”

The Academy’s use of funds to pay a portion of teacher salaries for the regular education program that would have been provided in the absence of federal funds is not in compliance with the requirement above.

We recommend the Academy develop policies and procedures to ensure they are in compliance with level of effort requirements to ensure that federal funds are being used in addition to non-federal funds and not in place of non-federal funds.

Officials Response and Corrective Action Plan:

The Academy will develop policies and procedures to ensure that it is in compliance with the level of effort requirements to ensure that federal funds are being used in addition to state and local funds, and not in place of such funds. Specifically, the Academy’s Superintendent, Business Manager, and Treasurer, with the assistance of their attorneys, develop a plan to track allocate and expenditures of federal dollars to ensure compliance with this requirement.

Finding Number	2012-08
CFDA Title and Number	Title I - CFDA # 84.010
Federal Award Number/Year	2012
Federal Agency	Department of Education
Pass-Through Agency	Ohio Department of Education

Significant Deficiency: Activities Allowed or Unallowed/Allowable Costs/Cost Principles/Period of Availability/Reporting

Management and the Board are charged with the responsibility of developing and maintaining a system of internal controls over 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.

During our audit, we developed an understanding of the Academy’s internal control procedures and noted the following:

- For a portion of the year, no documentation was maintained to evidence management’s pre-approval of purchases to ensure appropriateness and proper public purpose.

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(Continued)**

- For a portion of the year, no documentation was maintained to evidence management's review and approval of disbursements to ensure proper account coding.
- For a portion of the year, no documentation was maintained to evidence management's review of bank reconciliations.
- The Academy's chart of accounts does not management to track or report federal expenditures by grant year.
- 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.
- No documentation was maintained to evidence that payroll supporting documentation is compared to the payroll system reports prior to the processing of paychecks to ensure that payroll information is correctly entered into the payroll system.
- For a portion of year, the Treasurer was not reviewing payroll disbursements prior to check issuance to ensure that payroll amounts were supported by appropriate documentation and were posted to the proper account code.

The weaknesses noted above increase the risk that fraud or errors could occur and not be detected in a timely manner. In addition, the lack of documentation and consistent application of controls results in management's inability to obtain assurance that transactions are processed accurately and completely and recorded and reported in the appropriate account and grant.

We recommend the Academy design and implement internal control procedures capable of ensuring transactions are processed accurately, completely, and in accordance with program requirements. In addition, we recommend the Academy implement monitoring procedures to provide management with assurance that internal controls are applied consistently and are adequately documented.

Officials Response and Corrective Action Plan:

This item addresses several internal control procedures that the auditor identified as deficient. As an initial matter, each of the items qualified as occurring during "a portion of the year" where deficiencies that existed under the Academy's prior Treasurer, who was terminated in January 2012. The Academy has adopted policies and procedures to remedy those items specifically. For example, the Academy's current Treasurer provides pre-approval of purchases to ensure appropriateness and proper public purpose and proper accounting codes, and reviews bank reconciliations. Additionally, beginning at the start of the 2012-2013 school year, all hourly employees have executed written contracts stating the pay for each employee. With respect to payroll processing, the Academy's Business Manager inputs payroll data into a spreadsheet, which includes hours worked, vacation time taken, sick time taken, and any other relevant information. The spreadsheet is forwarded to the Treasurer who reviews the data and inputs the data into the Academy's payroll processing system. We believe that review of payroll data and time entries by two senior level school administrators now provides a sufficient level of monitoring and review to mitigate the risk of fraud and/or errors.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

JUNE 30, 2012

<u>Fiscal Year</u>	<u>Finding Number</u>	<u>Finding Summary</u>	<u>Status</u>
2011	2011-01	Material Weakness- Financial Reporting	Partially Corrected. Repeated as Finding 2012-02.
2011	2011-02	Significant Deficiency- Internal Controls over Purchasing	Partially Corrected. See Finding 2012-08.
2011	2011-03	Significant Deficiency- Internal Controls over Payroll Disbursements	Partially Corrected. Repeated as Finding 2012-08.
2011	2011-04	Significant Deficiency/ Noncompliance- Board Stipend and Employee Bonus Disbursements	Materially Corrected.
2011	2011-05	Noncompliance- Community School Sponsorship Contract	Partially Corrected. See Finding 2012-03.

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 procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Patriot Preparatory Academy (the Academy) has updated its 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. In our report dated January 24, 2012, we noted the Board had not adopted an anti-harassment policy.
2. We inquired with the Board's management regarding the aforementioned policy. They stated they have an anti-harassment policy however the policy has not been approved by the Board. The Board should adopt the policy as required by Ohio Rev. Code 3313.666. In addition, we read the policy, noting it does not include the following requirements listed in Ohio Rev. Code 3313.666.
 1. A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666, as amended by House Bill 19 of the 128th General Assembly;
 2. A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;
 3. A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

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 and Academy's sponsor and is not intended to be and should not be used by anyone other than these specified parties.

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
March 19, 2013



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 9, 2013**