

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

**BASIC FINANCIAL STATEMENTS  
For The Fiscal Year Ended June 30, 2013**





# Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Patriot Preparatory Academy, Franklin County, prepared by Kennedy Cottrell Richards LLC, for the audit period July 1, 2012 through June 30, 2013. 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

March 26, 2014

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

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## INDEPENDENT AUDITOR'S REPORT

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

To the Board of Directors:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of 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, 2013, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with the modified cash accounting basis Note 2 describes. This responsibility includes determining that the modified cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Academy's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Academy's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the modified cash financial position of Patriot Preparatory Academy, Franklin County, Ohio, as of June 30, 2013, and the changes in modified cash financial position thereof for the year then ended in accordance with the accounting basis described in Note 2.

**Accounting Basis**

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. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

**Other Matters**

*Supplemental and Other Information*

We audited to opine on the Academy's financial statements that collectively comprise its basic financial statements. *Management's Discussion & Analysis* includes tables of net position and changes in net position. These tables provide additional analysis and are not a required part of the basic financial statements.

The Schedule of Federal Award Receipts and Expenditures also presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements.

These tables and the Schedule are management's responsibility, and derive from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected these tables and the Schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling these tables and the Schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and in accordance with auditing standards generally accepted in the United States of America. In our opinion, these tables and the Schedule are 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 & Analysis, and we express no opinion or any other assurance on it.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2014, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.



Kennedy Cottrell Richards LLC  
January 30, 2014

**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, 2013  
(Unaudited)

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The management's discussion and analysis of Patriot Preparatory Academy's (the Academy) financial performance provides an overall view of the Academy's financial activities for the fiscal year ended June 30, 2013. 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 \$297,780 as of June 30, 2013.
- The Academy's net position decreased by \$474,847 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 modified cash basis of accounting.

**Report Components**

The statement of net position and the statement of cash receipts, disbursements, and changes in net position 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 position and the statement of cash receipts, disbursements, and changes in net position reflect how the Academy did financially during the fiscal year. The change in net position 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 modified 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 modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid with the exception of investment purchases and sales of investments. The Academy had no investments at fiscal year-end.



**PATRIOT PREPARATORY ACADEMY**  
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**Franklin County, Ohio**

Management's Discussion and Analysis  
For the Year Ended June 30, 2013  
(Unaudited)

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As a result of using the modified 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 modified cash basis of accounting.

**Financial Analysis**

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

**Table 1**  
**Net Position at Year End**

	2013	2012
Assets:		
Current Assets	\$ 297,780	\$ 772,627
Total Assets	297,780	772,627
Net Position:		
Restricted	526	94,331
Unrestricted	297,254	678,296
Total Net Position	\$ 297,780	\$ 772,627

As mentioned previously, net position decreased \$474,847 or 61 percent from 2012. Table 2 provides further detail on the decrease.

**PATRIOT PREPARATORY ACADEMY**  
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**Franklin County, Ohio**

Management's Discussion and Analysis  
For the Year Ended June 30, 2013  
(Unaudited)

**Financial Analysis**

Table 2 shows the change in net position for the fiscal year ended June 30, 2013.

**Table 2**  
**Changes in Net Position**

	2013	2012
<b>Operating Receipts:</b>		
State Foundation	\$ 3,577,873	\$ 3,363,996
Charges for Services	152,282	163,683
Other	155,372	189,679
Total Operating Receipts	3,885,527	3,717,358
<b>Operating Disbursements:</b>		
Salaries and Wages	2,307,800	1,922,236
Fringe Benefits	570,186	433,086
Purchased Services	911,663	739,977
Materials and Supplies	396,992	491,113
Rent	625,000	360,000
Other	11,682	136
Total Operating Disbursements	4,823,323	3,946,548
Operating Loss	(937,796)	(229,190)
<b>Nonoperating Receipts</b>		
Federal and State Grants	462,949	701,809
Total Nonoperating Receipts	462,949	701,809
Change in Net Position	(474,847)	472,619
Net Position, Beginning of Year	772,627	300,008
Net Position, End of the Year	\$ 297,780	\$ 772,627

Fiscal year 2012 cash disbursements for Salaries and Wages and Fringe Benefits have been reclassified to correlate with 2013 classifications.

The increases in Foundation receipts and operating disbursements are primarily related to the 7.1 percent increase in enrollment during fiscal year 2013. Disbursements also increased due to a down payment the Academy made towards the purchase of the facilities it currently rents. The Academy also had a significant decrease in Federal and State grant receipts.

**PATRIOT PREPARATORY ACADEMY**  
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**Franklin County, Ohio**

Management's Discussion and Analysis  
For the Year Ended June 30, 2013  
(Unaudited)

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**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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Statement of Net Position - Modified Cash Basis  
As of June 30, 2013

<b>Assets</b>	
Cash and Cash Equivalents	\$ 297,780
Total Assets	<u>297,780</u>
 <b>Net Position</b>	
Restricted for:	
Federal and State Grants	526
Unrestricted	<u>297,254</u>
Total Net Position	<u>\$ 297,780</u>

See accompanying notes to the basic financial statements.

**PATRIOT PREPARATORY ACADEMY**  
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**Franklin County, Ohio**

Statement of Cash Receipts, Disbursements, and Changes  
in Net Position - Modified Cash Basis  
For the Year Ended June 30, 2013

<b>Operating Receipts:</b>	
State Foundation	\$ 3,577,873
Charges for Services	152,282
Other	155,372
Total Operating Receipts	<u>3,885,527</u>
<b>Operating Disbursements:</b>	
Salaries and Wages	2,307,800
Fringe Benefits	570,186
Purchased Services	911,663
Materials and Supplies	396,992
Rent & Facilities	625,000
Other	11,682
Total Operating Disbursements	<u>4,823,323</u>
Operating Loss	<u>(937,796)</u>
<b>Non-Operating Receipts:</b>	
Federal and State Grants	<u>462,949</u>
Total Non-Operating Receipts	<u>462,949</u>
Change in Net Position	(474,847)
Net Position at Beginning of Year	<u>772,627</u>
Net Position at End of Year	<u><u>\$ 297,780</u></u>

See accompanying notes to the basic financial statements.

**PATRIOT PREPARATORY ACADEMY**  
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Notes to the Basic Financial Statements  
For the Year Ended June 30, 2013

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**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" and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus."

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 27 non-certified and 41 certified employees serving 585 students.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

As discussed further in Note 2B, these financial statements are presented on a modified cash basis of accounting. This modified 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 modified cash basis of accounting. Following are the more significant of the Academy's accounting policies.

**PATRIOT PREPARATORY ACADEMY**  
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Notes to the Basic Financial Statements  
For the Year Ended June 30, 2013

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**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 Position, and a Statement of Receipts, Disbursements, and Changes in Net Position. These statements are prepared on the modified cash basis of accounting as further described in Note 2 B.

**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 modified cash basis of accounting. With the exception of investment purchases and sales, 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. The Academy had no investments at fiscal year end.

As a result of the use of this modified cash basis of accounting, certain noncash 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 position, 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, 2013.

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

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2013

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**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 9 and 10, the employer contributions include portions for pension benefits and for postretirement health care benefits.

**J. Accrued Liabilities and Long-Term Obligations**

The Academy's modified 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.



**PATRIOT PREPARATORY ACADEMY**  
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**Franklin County, Ohio**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2013

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**K. Deferred Inflows and Outflows of Resources**

The Academy's modified cash basis financial statements do not report deferred inflows and outflows of resources. The Academy recognizes the proceeds of deferred inflows when cash is received and the disbursement for deferred outflows when they are paid.

**M. Net Position**

Net position is 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 position are available. The Academy had \$526 in restricted net position at fiscal year end.

**L. Operating Receipts and Disbursements**

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

**NOTE 3 – 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 modified 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 position/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.

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

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2013

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**NOTE 4 – CASH AND CASH EQUIVALENTS**

At fiscal year end June 30, 2013, the carrying amount of the Academy's deposits was \$297,780, and the bank balance was \$403,669. Of the bank balance, \$30,060 was exposed to custodial credit risk as discussed below, while \$373,609 was covered by Federal Deposit Insurance.

Custodial credit risk is the risk that, in the event of bank failure, the Academy's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank 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 credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Academy to a successful claim by the FDIC.

**NOTE 5 – PURCHASED SERVICES**

For the fiscal year ended June 30, 2013, purchased services disbursements were are as follows:

Repairs and Maintenance	\$	165,852
Professional and Technical		161,926
Dues and Fees		120,006
Sponsorship		107,149
Utilities		69,700
Fiscal Fees		65,415
Legal Services		38,693
Communications		24,504
Transportation		22,955
Travel/Meeting Expense		28,626
Equipment Rental and Leasing		12,367
Insurance		8,136
Mail/Messenger		606
Other		85,728
	\$	<u>911,663</u>

**PATRIOT PREPARATORY ACADEMY**  
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Notes to the Basic Financial Statements  
For the Year Ended June 30, 2013

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**NOTE 6 – 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, which increased to \$35,000 per month in June 2013. The Academy made lease payments for the facilities totaling \$425,000 during fiscal year 2013. The lease agreement allows for two year lease renewals with an additional 5% increase per year for each two year extension. During fiscal year 2013, the Academy made a \$200,000 down payment to Liberty Christian Academy with the intention of purchasing the facilities that it currently rents.

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. Additional payments for the maintenance agreement are a minimum of \$197 per month. Total payments related to these agreements during the fiscal year totaled \$16,292.

**NOTE 7 – 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 \$107,149 in sponsorship fees.

**PATRIOT PREPARATORY ACADEMY**  
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**Franklin County, Ohio**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2013

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**NOTE 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, 2013, the Academy contracted with Best Hoover McTeague Insurance Services for the following insurance coverage:

<u>Coverage</u>	<u>Limits of Coverage</u>
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.

**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.

**PATRIOT PREPARATORY ACADEMY**  
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Notes to the Basic Financial Statements  
For the Year Ended June 30, 2013

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**NOTE 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*.

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, 2013, the allocation to pension and death benefits is 13.1%. The remaining .90% 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, 2013, 2012 and 2011 were \$126,601, \$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](http://www.strsoh.org).

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Notes to the Basic Financial Statements  
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**NOTE 9 – 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 31<sup>st</sup> 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.

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

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2013

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**NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)**

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.

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, 2013, 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, 2013, 2012 and 2011 were \$157,552, \$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 Year Ended June 30, 2013

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**NOTE 10 – 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 2013 was \$104.90 for most participants, but could be as high as \$335.70 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 2013, the actuarially required allocation is .74%. The Academy's contributions for the years ended June 30, 2013, 2012 and 2011 were \$7,152, \$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.



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

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2013

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**NOTE 10 – POSTEMPLOYMENT BENEFITS (Continued)**

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, 2013, the health care allocation is .16%. 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 2013, 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, 2013, 2012 and 2011 were \$15,015, \$11,482 and \$9,400, respectively, equal to the required contributions for each year.

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](http://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](http://www.strsoh.org) or by calling (888) 227-7877.

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

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2013

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**NOTE 10 – POSTEMPLOYMENT BENEFITS (Continued)**

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 2013, 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, 2013, 2012 and 2011 were \$12,119, \$10,413 and \$6,839, respectively, equal to the required contributions for each year.

**NOTE 11 – FISCAL AGENT**

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, 2014, with required payments of \$3,400 per month. Total payments to Jarvis & Associates, LLC during the fiscal year were \$40,800.

**NOTE 12 – CONTINGENCIES**

**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 13 – 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 \$425,000 in rent to Liberty Christian Academy and an additional \$200,000 down payment to purchase the facility.

**NOTE 14 – SUBSEQUENT EVENTS**

On October 30, 2013, the Academy purchased the school facilities being leased from Liberty Christian Academy. To finance the purchase, the Academy issued notes totaling \$800,000.

**PATRIOT PREPARATORY ACADEMY  
FRANKLIN COUNTY, OHIO**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2013**

<u>Federal grantor/Pass through grantor/Program title</u>	<u>Federal CFDA Number</u>	<u>Grant Year</u>	<u>Receipts</u>	<u>Expenditures</u>
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>				
<i>Pass-through Ohio Department of Education:</i>				
Nutrition Cluster:				
National School Lunch Program	10.555	2013	128,695	128,695
<b>Total U.S. Department of Agriculture</b>			<b><u>128,695</u></b>	<b><u>128,695</u></b>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>				
<i>Pass-through Ohio Department of Education:</i>				
<b>Title I Cluster</b>				
Title I Grants to Local Education Agencies	84.010	2012	(29,580)	56,020
Title I Grants to Local Education Agencies	84.010	2013	225,484	278,287
<b>Total Title I Cluster</b>			<b><u>195,904</u></b>	<b><u>334,307</u></b>
Special Education-Grants to States	84.027	2012	(16,587)	6,813
Special Education-Grants to States	84.027	2013	119,933	111,062
<b>Total Special Education- Grants to States</b>			<b><u>103,346</u></b>	<b><u>117,875</u></b>
Education Technology State Grants	84.318	2012	2,083	-
<b>Total Education Technology State Grants</b>			<b><u>2,083</u></b>	<b><u>-</u></b>
Improving Teacher Quality State Grants	84.367	2012	1,000	1,000
<b>Total Improving Teacher Quality State Grants</b>			<b><u>1,000</u></b>	<b><u>1,000</u></b>
Education Jobs Fund	84.410	2012	14,213	17,077
<b>Total Education Jobs Fund</b>			<b><u>14,213</u></b>	<b><u>17,077</u></b>
<b>Total U.S. Department of Education</b>			<b><u>316,546</u></b>	<b><u>470,259</u></b>
<b>Totals</b>			<b><u>\$ 445,241</u></b>	<b><u>\$ 598,954</u></b>

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, 2013**

**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.

**NOTE C - TRANSFERS BETWEEN PROGRAM YEARS**

Federal regulations require schools to obligate certain federal awards by June 30. However, with ODE's consent, schools can transfer unobligated amounts to the subsequent fiscal year's program. These transfers resulted in the Schedule reporting negative receipts. The Academy transferred the following amounts from 2012 to 2013 programs:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Transferred from 2012 to 2013</u>
Title I Grants to Local Educational Agencies	84.010	\$ 29,580
Special Education - Grants to States	84.027	\$ 16,587

**INDEPENDENT AUDITOR'S 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, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Patriot Preparatory Academy, Franklin County, (the Academy), a component unit of Reynoldsburg City School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated January 30, 2014, wherein we noted the Academy reports on the modified cash basis of accounting, which is a comprehensive accounting basis other than generally accepted accounting principles.

***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the Academy's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Academy's internal control. Accordingly, we have not opined on it.

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

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 internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Academy's financial statements. 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 finding 2013-002 described in the accompanying schedule of findings and questioned costs to be a material weakness.

***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, opining 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 an instance of noncompliance or other matters we must report under *Government Auditing Standards*, which is described in the accompanying schedule of findings and questioned costs as item 2013-001.

***Academy's Response to Findings***

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.

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Academy's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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 30, 2014

**INDEPENDENT AUDITOR'S 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:

***Report on Compliance for Each Major Federal Program***

We have audited Patriot Preparatory Academy's (the Academy), a component unit of the Reynoldsburg City School District, compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the Academy's major federal program for the year ended June 30, 2013. The *Summary of Audit Results* in the accompanying schedule of findings and questioned costs identifies the Academy's major federal program.

***Management's Responsibility***

The Academy's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to opine on the Academy's compliance for each of the Academy's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for 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 us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the Academy's major program. However, our audit does not provide a legal determination of the Academy's compliance.

***Basis for Qualified Opinion on Title I Program***

As described in findings 2013-003 through 2013-005 in the accompanying schedule of findings and questioned costs, the Academy did not comply with requirements regarding activities allowed or unallowed, allowable costs/cost principles, eligibility, and level of effort applicable to its Title I Program major federal program. Compliance with these requirements is necessary, in our opinion, for the Academy to comply with requirements applicable to this program.

***Qualified Opinion on Title I Program***

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Title I Cluster* paragraph, the Academy complied, in all material respects, with the requirements referred to above that could directly and materially affect its Title I Program for the year ended June 30, 2013.

**Other Matters**

The Academy's responses to our noncompliance findings 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.

**Report on Internal Control over Compliance**

The Academy's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the Academy's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine 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 material weaknesses or significant deficiencies. Therefore, we cannot assure we have identified all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and a deficiency we consider to be a significant deficiency.

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's applicable 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's 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 2013-003 through 2013-005 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's applicable 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 deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2013-006 to be a significant deficiency.

The Academy's responses to our internal control over compliance findings 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.

This report only describes the scope of our tests of internal control over compliance and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.



Kennedy Cottrell Richards LLC  
January 30, 2014



**PATRIOT PREPARATORY ACADEMY  
FRANKLIN COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2013**

**1. SUMMARY OF AUDITOR'S RESULTS**

(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Were there any material internal control weaknesses reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(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	Modified
(d)(1)(vi)	Are there any reportable findings under § .510(a) of Circular A-133?	Yes
(d)(1)(vii)	Major Programs (list):	Title I Program CFDA # 84.010
(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, 2013  
(Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2013-001**

**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 modified 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 2013-002**

**Material Weakness – 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 excluded a program, and understated expenditures for several other 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, 2013  
(Continued)**

Finding Number 2013-002 (continued)

Officials Response:

The Academy acknowledges the finding of misstatements in its Schedule of Federal Awards Receipts and Expenditures for several federal programs. Currently, the Academy's Treasurer periodically generates a report of expenditures to be charged to the various federal grant programs. The Treasurer reviews the requested expenditures and requests an opinion from the federal grants consultant to determine whether each expenditure can be charged to a federal grant program. The Treasurer notifies the appropriate administrator as to 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.

<b>3. FINDINGS FOR FEDERAL AWARDS</b>
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<b>Finding Number</b>	2013-003
<b>CFDA Title and Number</b>	Title I - CFDA # 84.010
<b>Federal Award Number/Year</b>	2013
<b>Federal Agency</b>	Department of Education
<b>Pass-Through Agency</b>	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.

**PATRIOT PREPARATORY ACADEMY  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**JUNE 30, 2013  
(Continued)**

Finding Number 2013-003 (continued)

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 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:

The Academy will review its documentation policy as it relates to Title I Part A program. As the Academy has qualified for school-wide assistance for the 2013-2014 school year, all students may receive Title I services.

<b>Finding Number</b>	2013-004
<b>CFDA Title and Number</b>	Title I - CFDA # 84.010
<b>Federal Award Number/Year</b>	2013
<b>Federal Agency</b>	Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Material Weakness/Noncompliance/Questioned Cost: Activities Allowed or Unallowed and 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.

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

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

**PATRIOT PREPARATORY ACADEMY  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**JUNE 30, 2013  
(Continued)**

Finding Number 2013-004 (continued)

(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 \$318,469.

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 has qualified for school-wide Title I assistance for the 2013-2014 school year and has implemented controls to properly document the instructional time of all Title I employees. Any employee who works full-time to provide Title I services to the students of the Academy completes a semi-annual certification signed by both the employee and the employee's direct supervisor. Any employees who provide both Title I instructional services and general Title I services maintain logs of time spent on instructional services. Both Title I services and general instructional services are tracked on the log. The log contains detailed after-the-fact activity of services provided and are signed by the employee. These logs are kept on a monthly basis.

<b>Finding Number</b>	2013-005
<b>CFDA Title and Number</b>	Title I - CFDA # 84.010
<b>Federal Award Number/Year</b>	2013
<b>Federal Agency</b>	Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**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."

**PATRIOT PREPARATORY ACADEMY  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**JUNE 30, 2013  
(Continued)**

Finding Number 2013-005 (continued)

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, Head Administrator, 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.

<b>Finding Number</b>	2013-006
<b>CFDA Title and Number</b>	Title I - CFDA # 84.010
<b>Federal Award Number/Year</b>	2013
<b>Federal Agency</b>	Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Significant Deficiency: Cash Management/Period of Availability/Reporting**

Management must devise and implement internal control procedures capable of ensuring compliance with program requirements. In addition, appropriate supporting documentation must be maintained to evidence the performance of internal control procedures and provide management with assurance the internal control environment is operating as intended.

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

- the Academy's chart of accounts does not allow management to track or report federal receipts or expenditures by grant year;
- there is no evidence of supervisory review and approval of project cash requests and final expenditure reports submitted to the Ohio Department of Education; and
- appropriate documentation is not maintained to support project cash requests and final expenditures reports.

The absence of internal control and appropriate supporting documentation increase the risk of noncompliance with program requirements.

**PATRIOT PREPARATORY ACADEMY  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**JUNE 30, 2013  
(Continued)**

Finding Number 2013-006 (continued)

We recommend the Academy devise and implement internal control procedures capable of ensuring compliance with program requirements and maintain appropriate documentation to evidence the performance of internal controls.

Officials Response and Corrective Action Plan:

The Academy has implemented the use of special cost centers in its accounting to ensure accurate reporting of all revenues and expenditures for federal grant programs. A new special cost center will be created for each grant program for each successive fiscal year, allowing all revenues and expenditures to be tracked in the year in which they occur. Detailed reports will be kept of all expenditures to support project cash requests and the amounts stated in the final expenditure reports. Effective immediately the treasurer will include in his monthly financial report to the board of education documentation for any project cash requests submitted for the previous month's activity.

**PATRIOT PREPARATORY ACADEMY  
FRANKLIN COUNTY, OHIO**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**JUNE 30, 2013**

<u>Fiscal Year</u>	<u>Finding Number</u>	<u>Finding Summary</u>	<u>Status</u>
2012	2012-01	Noncompliance- Basis of Accounting	Not Corrected. Repeated as Finding 2013-001.
2012	2012-02	Significant Deficiency- Schedule of Federal Awards Receipts and Expenditures Reporting	Not Corrected. Repeated as Finding 2013-002.
2012	2012-03	Noncompliance- Community School Sponsorship Contract	Corrected.
2012	2012-04	Significant Deficiency- Title I Eligibility Determinations	Corrected.
2012	2012-05	Material Weakness and Noncompliance- Eligibility	Not Corrected. Repeated as Finding 2013-003.
2012	2012-06	Material Weakness/ Noncompliance/ Questioned Cost- Allowable Costs/Cost Principles	Not Corrected. Repeated as Finding 2013-004.
2012	2012-07	Material Weakness and Noncompliance- Level of Effort	Not Corrected. Repeated as Finding 2013-005.
2012	2012-08	Significant Deficiency- Activities Allowed or Unallowed/ Allowable Costs/Cost Principles/ Period of Availability/ Reporting	Partially Corrected. See Finding 2013-006.



## Independent Auditor's 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 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. In our report dated March 19, 2013, 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 128<sup>th</sup> 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  
January 30, 2014



# 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  
APRIL 8, 2014**