

Five R's Academy
Audited Financial Statements

June 30, 2008



Mary Taylor, CPA

Auditor of State

Board of Directors
Five R's Academy
4526 Ridge Avenue, S.E.
Canton, OH 44707

We have reviewed the *Independent Auditor's Report* of the Five R's Academy, Stark County, prepared by Rea & Associates, Inc., for the audit period August 21, 2007 through June 30, 2008. 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 Five R's Academy is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 7, 2009

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**FIVE R'S ACADEMY
CANTON, OHIO**

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Rea & Associates, Inc.
ACCOUNTANTS AND BUSINESS CONSULTANTS

122 4th St. NW | PO Box 1020
New Philadelphia, OH 44663-5120

December 15, 2008

Board of Directors
Five R's Academy
4526 Ridge Avenue, S.E.
Canton, OH 44707

Independent Auditor's Report

We have audited the accompanying basic financial statements of the Five R's Academy, a component unit of Canton Local School District, Stark County, Ohio, as of and for the period August 21, 2007 through June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Five R's 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Five R's Academy as of June 30, 2008, and the changes in its financial position and its cash flows for the period August 21, 2007 through June 30, 2008 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2008 on our consideration of the Five R's 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Directors
Five R's Academy
December 15, 2008
Independent Auditor's Report

The management's discussion and analysis on pages 3 through 6 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Rea & Associates, Inc.

FIVE R'S ACADEMY
(A Component Unit of Canton Local School District)
STARK COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD AUGUST 21, 2007 THROUGH JUNE 30, 2008

The management's discussion and analysis of the Five R's Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the period August 21, 2007 through June 30, 2008. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

Key financial highlights for 2008 are as follows:

- In total, net assets were \$211,494 at June 30, 2008.
- The Academy had operating revenues of \$160,446, operating expenses of \$322,824 and non-operating revenues of \$286,094 for fiscal year 2008. Total change in net assets for the period was an increase of \$123,716.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy's financial activities. The *statement of net assets* and *statement of revenues, expenses and changes in net assets* provide information about the activities of the Academy, including all short-term and long-term financial resources and obligations.

Reporting the Academy's Financial Activities

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

These documents look at all financial transactions and asks the question, "How did we do financially during 2008?" The statement of net assets and the statement of revenues, expenses and changes in net assets answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

The statement of net assets and the statement of revenues, expenses and changes in net assets report the Academy's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the Academy as a whole, the *financial position* of the Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 7 and 8 of this report.

The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 9 of this report.

FIVE R'S ACADEMY
(A Component Unit of Canton Local School District)
STARK COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD AUGUST 21, 2007 THROUGH JUNE 30, 2008

The table below provides a summary of the Academy's net assets for the period August 21, 2007 through June 30, 2008. This is the Academy's first year of operation, comparative information is not available.

Net Assets	
	<u>2008</u>
<u>Assets</u>	
Current assets	\$ 479
Capital assets, net	<u>211,015</u>
Total assets	<u>211,494</u>
<u>Net Assets</u>	
Invested in capital assets	211,015
Unrestricted	<u>479</u>
Total net assets	<u>\$ 211,494</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2008, the Academy's net assets totaled \$211,494.

The balance of unrestricted net assets of \$479 may be used to meet the Academy's ongoing obligation to the students and creditors.

At June 30, 2008, capital assets represented 99.77% of total assets. Capital assets consisted of furniture and equipment. There is no debt related to these capital assets. Capital assets are used to provide services to the students and are not available for future spending.

FIVE R'S ACADEMY
(A Component Unit of Canton Local School District)
STARK COUNTY, OHIO

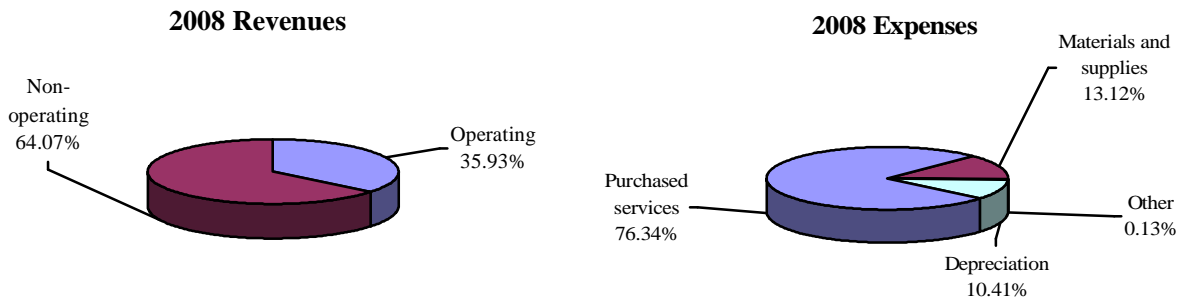
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD AUGUST 21, 2007 THROUGH JUNE 30, 2008

The table below shows the changes in net assets for the period August 21, 2007 through June 30, 2008.

Change in Net Assets

	2008
<u>Operating Revenues:</u>	
State foundation	\$ 160,446
Total operating revenue	160,446
<u>Operating Expenses:</u>	
Purchased services	246,434
Materials and supplies	42,368
Depreciation	33,602
Other	420
Total operating expenses	322,824
<u>Non-operating Revenues:</u>	
Federal and state grants	286,094
Total non-operating revenues	286,094
Change in net assets	123,716
Net assets at beginning of year	87,778
Net assets at end of year	\$ 211,494

The charts below illustrate the revenues and expenses for the Academy for the period August 21, 2007 through June 30, 2008.



Capital Assets

At June 30, 2008, the Academy had \$211,015 invested in furniture and equipment. See Note 8 to the basic financial statements for more detail on capital assets.

FIVE R'S ACADEMY
(A Component Unit of Canton Local School District)
STARK COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD AUGUST 21, 2007 THROUGH JUNE 30, 2008

Current Financial Related Activities

The Academy is sponsored by Canton Local School District. The Academy is reliant upon State Foundation monies and Federal Sub-Grants to offer quality, online learning to students.

In order to continually provide online learning opportunities to the Academy's students, the Academy will apply resources to best meet the needs of its students. It is the intent of the Academy to apply for other State and Federal funds that are made available to finance operations.

Contacting the Digital Academy's Financial Management

This financial report is designed to provide our clients and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. A. Michael Bichsel, Treasurer, Five R's Academy, 4526 Ridge Avenue, Canton, Ohio 44707.

FIVE R'S ACADEMY
(A Component Unit of Canton Local School District)
STARK COUNTY, OHIO

STATEMENT OF NET ASSETS
FOR THE PERIOD ENDED JUNE 30, 2008

Assets:	
Current assets:	
Cash and cash equivalents.	\$ 269
Prepayments	<u>210</u>
Total current assets.	<u>479</u>
Non-current assets:	
Capital assets, net.	<u>211,015</u>
Total assets	<u>211,494</u>
Net Assets:	
Invested in capital assets	211,015
Unrestricted.	<u>479</u>
Total net assets	<u><u>\$ 211,494</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

FIVE R'S ACADEMY
(A Component Unit of Canton Local School District)
STARK COUNTY, OHIO

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE PERIOD AUGUST 21, 2007 THROUGH JUNE 30, 2008

Operating revenues:	
State foundation	\$ 160,446
Total operating revenue	<u>160,446</u>
Operating expenses:	
Purchased services	246,434
Materials and supplies	42,368
Depreciation	33,602
Other	420
Total operating expenses	<u>322,824</u>
Operating loss	<u>(162,378)</u>
Non-operating revenues:	
Federal and State grants	<u>286,094</u>
Total non-operating revenues	<u>286,094</u>
Change in net assets	123,716
Net assets at beginning of year	<u>87,778</u>
Net assets at end of year	<u><u>\$ 211,494</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

FIVE R'S ACADEMY
(A Component Unit of Canton Local School District)
STARK COUNTY, OHIO

STATEMENT OF CASH FLOWS
FOR THE PERIOD AUGUST 21, 2007 THROUGH JUNE 30, 2008

Cash flows from operating activities:		
Cash received from State foundation.	\$	160,446
Cash payments to suppliers for goods and services . .		(246,644)
Cash payments for materials and supplies		(42,368)
Cash payments for other expenses		(420)
		<hr/>
Net cash used in operating activities		(128,986)
		<hr/>
Cash flows from noncapital financing activities:		
Federal and State grants.		286,094
		<hr/>
Net cash provided by noncapital financing activities		286,094
		<hr/>
Cash flows from capital and related financing activities:		
Acquisition of capital assets		(171,841)
		<hr/>
Net cash used in capital and related financing activities		(171,841)
		<hr/>
Net increase in cash and cash equivalents		(14,733)
		<hr/>
Cash and cash equivalents at beginning of year. . .		15,002
Cash and cash equivalents at end of year.	\$	269
		<hr/> <hr/>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$	(162,378)
Adjustments:		
Depreciation.		33,602
Changes in assets and liabilities:		
(Increase) in prepayments		(210)
		<hr/>
Net cash used in operating activities	\$	(128,986)
		<hr/> <hr/>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

FIVE R'S ACADEMY
(A Component Unit of Canton Local School District)
STARK COUNTY, OHIO

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE PERIOD AUGUST 21, 2007 THROUGH JUNE 30, 2008

NOTE 1 - DESCRIPTION OF THE ACADEMY

The Five R's Academy (the "Academy") is a non-profit 501(c)(3) corporation established pursuant to Ohio Revised Code Chapters 3314 and 3314.03 to establish a new conversion school in Canton Local School District (the "Sponsor") addressing the needs of high school students (grades 9-12). The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices and all other operations. The Academy may sue and be sued, acquire facilities as needed and contract for any services necessary for the operation of the Academy. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax-exempt status. The Academy is considered a component unit of the Canton Local School District for reporting purposes, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14 as amended by GASB Statement No. 39.

The Academy offers a rigorous and relevant curriculum that incorporates the high infusion of technology to reach a diverse student population. The Academy is designed for high school students who have a desire for, and whose education can be optimized by, a program that includes a focus on rigor, relevance, relationships, respect and responsibility built into an interdisciplinary hands-on collaborative approach to education. Student learning is individualized to meet their needs while providing opportunities to work as collaborators, investigators, and problem solvers. This population may include, but will not be limited to, students who need an alternative to the traditional classroom for various reasons, including students within the Sponsor school district that desire an alternative approach to instruction. The program permits the use of a highly technology infused and engaging instructional delivery for each individual student. Students explore career options through shadowing, mentorship, interviews with members of various occupations, and through on-line research. This is a classroom-based learning opportunity in compliance with criteria for student participation established by the Ohio Department of Education under division (L)(2) of section 3314.08 of the Ohio Revised Code.

The Academy provides a unique opportunity to attract and serve certain students who may be currently struggling to fit and/or those students who feel disengaged or disenfranchised with the traditional classroom setting and who may benefit from an alternative approach.

The Academy was approved under contract with the Sponsor for a period of five years commencing July 1, 2007 through June 30, 2012 after which, the Academy must apply for an additional contract with the Sponsor. The Academy began operations on August 21, 2007. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration. The Board of Directors is responsible for the operations of the Academy.

The Academy operates under the direction of a five-member Board of Directors (the "Board"). The Board is composed of the Sponsor's Superintendent and the Sponsor's Curriculum Director. In addition to the above, the Board also includes three other persons who serve as voting members, one of whom is a public educator or public official representing a governmental entity that desires to further the establishment and operation of the Academy and one of whom represents the interests of the parents and students served by the Academy. The 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 qualification of teachers.

FIVE R'S ACADEMY
(A Component Unit of Canton Local School District)
STARK COUNTY, OHIO

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE PERIOD AUGUST 21, 2007 THROUGH JUNE 30, 2008

NOTE 1 - DESCRIPTION OF THE ACADEMY- (Continued)

The Sponsor, under a purchased services basis with the Academy, provides planning, instructional, administrative and technical services. Personnel providing services to the Academy on behalf of the Sponsor under the purchased services basis are considered employees of the Sponsor and the Sponsor is solely responsible for all payroll functions. The Academy provides services to approximately twenty seven students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements (BFS) of the Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989, provided those pronouncements do not conflict with or contradict GASB pronouncements. The Academy has elected not to apply FASB Statements and Interpretations issued after November 30, 1989. The Academy's significant accounting policies are described below.

A. Basis of Presentation

Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

B. Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The difference between total assets and liabilities are defined as net assets. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

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 Section 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor requires a detailed school budget for each year of the contract; however, the budget does not have to follow the provisions of Ohio Revised Code Section 5705.

D. Cash

All monies received by the Academy are deposited in a demand deposit account.

FIVE R'S ACADEMY
(A Component Unit of Canton Local School District)
STARK COUNTY, OHIO

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE PERIOD AUGUST 21, 2007 THROUGH JUNE 30, 2008

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

E. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments or by enabling legislation.

The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. As of June 30, 2008, the Academy did not have any net assets restricted by enabling legislation.

F. Intergovernmental Revenue

The Academy currently participates in the State Foundation Program through the Ohio Department of Education. Revenue from this program is recognized as operating revenue in the accounting period in which it is earned, essentially the same as the fiscal year.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis. Federal and State grant revenue for the period August 21, 2007 through June 30, 2008 received by the Academy was \$286,094.

G. Capital Assets and Depreciation

All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The Academy maintains a capitalization threshold of \$1,000. The Academy does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method. Furniture and equipment is depreciated over five years.

H. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the Academy. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Academy. All revenues and expenses not meeting this definition are reported as non-operating.

FIVE R'S ACADEMY
(A Component Unit of Canton Local School District)
STARK COUNTY, OHIO

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE PERIOD AUGUST 21, 2007 THROUGH JUNE 30, 2008

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

I. Prepayments

Certain payments to vendors reflected the costs applicable to future accounting periods and were recorded as prepaid items in the financial statements. These items were reported as assets on the statement of net assets using the consumption method. A current asset for the prepaid amounts was recorded at the time of the purchase and the expense is reported in the year in which service are consumed.

J. Estimates

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

NOTE 3 - DEPOSITS

At June 30, 2008, the carrying amount of the Academy's deposits was \$269 and the bank balance was \$1,792. The entire bank balance was covered by federal depository insurance.

NOTE 4 - RECEIVABLES

At June 30, 2008 the Academy had no receivables.

NOTE 5 - RISK MANAGEMENT

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to contracted personnel; and natural disasters. For the period August 21, 2007 through June 30, 2008, the Academy was named on the Sponsor's policy for property and general liability insurance. The Academy provides employee bond coverage through Leonard Insurance Services in the following amounts: Treasurer \$50,000 and Board of Directors \$20,000.

Settled claims have not exceeded coverage in any of the past three years. There was no significant reduction in coverage from the prior year.

NOTE 6 - PURCHASED SERVICES

During the period August 21, 2007 through June 30, 2008, purchased services expenses were as follows:

Professional and technical services	\$ 11,303
Instructional services	<u>235,131</u>
Total	<u>\$ 246,434</u>

FIVE R'S ACADEMY
(A Component Unit of Canton Local School District)
STARK COUNTY, OHIO

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE PERIOD AUGUST 21, 2007 THROUGH JUNE 30, 2008

NOTE 7 - SERVICE AGREEMENT

The Community School Sponsorship Contract (the "Contract") between the Academy and the Canton Local School District (as Sponsor) outlined the specific payments to be made by the Academy to the Sponsor during the period August 21, 2007 through June 30, 2008. The Contract stated that the two parties agreed to pay mutually agreed upon amounts, including fees for any services provided to the Academy by the Sponsor. The following payments were made during the period August 21, 2007 through June 30, 2008 from the Academy to the Sponsor:

Educational services	\$246,434
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Additionally, the Contract allows, based on mutual agreement, for the payment of \$150 per student per year from the Academy to the Sponsor, in accordance with Ohio Revised Code Section 3314.08.

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the period August 21, 2007 through June 30, 2008, was as follows:

	<u>Balance at</u> <u>08/21/07</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at</u> <u>06/30/08</u>
Furniture and equipment	\$82,090	\$ 171,841	\$ -	\$ 253,931
Less: accumulated depreciation	<u>(9,314)</u>	<u>(33,602)</u>	<u>-</u>	<u>(42,916)</u>
Capital assets, net	<u>\$72,776</u>	<u>\$ 138,239</u>	<u>\$ -</u>	<u>\$ 211,015</u>

NOTE 9 - CONTINGENCIES

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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2008.

NOTE 10 – CHANGE IN ACCOUNTING PRINCIPLES

For the period August 21, 2007 through June 30, 2008, the Academy has implemented GASB Statement No. 48 "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues".

GASB Statement No. 48 establishes criteria to ascertain whether certain transactions should be regarded as sales or as collateralized borrowings, as well as disclosure requirements for future revenues that are pledged and sold. The implementation of GASB Statement No. 48 did not have an effect on the financial statements of the Academy.

FIVE R'S ACADEMY
(A Component Unit of Canton Local School District)
STARK COUNTY, OHIO

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE PERIOD AUGUST 21, 2007 THROUGH JUNE 30, 2008

NOTE 11- START-UP PERIOD

The Academy received \$177,727 in start-up grants from fiscal year 2006 through August 20, 2007. The Academy opened their doors on August 21, 2007. Monies were expended for purchased services and materials and supplies. Capital assets were also invested in, which included computers and equipment. The total expended during the start-up period was \$82,090, including \$9,314 in depreciation.

Net assets at the end of the start-up period consisted of the following:

Cash	\$ 15,002
Capital assets, net	<u>72,776</u>
Total net assets at August 20, 2007	<u>\$ 87,778</u>



Rea & Associates, Inc.
ACCOUNTANTS AND BUSINESS CONSULTANTS

122 4th St. NW | PO Box 1020
New Philadelphia, OH 44663-5120

December 15, 2008

Board of Directors
Five R's Academy
4526 Ridge Avenue, S.E.
Canton, OH 44707

**Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance
with Government Auditing Standards**

We have audited the basic financial statements of the Five R's Academy, a component unit of Canton Local School District, Stark County, Ohio as of and for the period August 21, 2007 through June 30, 2008, and have issued our report thereon dated December 15, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Five R's Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Five R's Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Five R's Academy's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Board of Directors Five R's Academy
Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance
with *Government Auditing Standards*

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 significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the Academy in a separate letter dated December 15, 2008.

Compliance and Other Matters

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

This report is intended solely for the information and use of management and Board of Directors of Five R's Academy and is not intended to be and should not be used by anyone other than those specified parties.

Rea & Associates, Inc.



Mary Taylor, CPA
Auditor of State

FIVE R'S ACADEMY

STARK 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
JANUARY 20, 2009**