PROJECT REBUILD COMMUNITY SCHOOL
STARK COUNTY

INITIAL AUDIT

FOR THE YEAR ENDED JUNE 30, 2005

PROJECT REBUILD COMMUNITY SCHOOL
STARK COUNTY

TABLE OF CONTENTS

This page intentionally left blank.

INDEPENDENT ACCOUNTANTS' REPORT

Project REBUILD Community School
Stark County
406 Shorb Avenue NW
Canton, Ohio 44703-2617

To the Board of Trustees:

We have audited the accompanying basic financial statements of the Project REBUILD Community School, Stark County, Ohio, (the School) as of and for the year ended June 30, 2005, as listed in the Table of Contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Project REBUILD Community School, Stark County, Ohio, as of June 30, 2005, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2006, on our consideration of the School'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 for the year ended June 30, 2005. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

101 Central Plaza South / 700 Chase Tower / Canton, OH 44702
Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001
www.auditor.state.oh.us

Mangagement's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. 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.

Betty Montgomery

Betty Montgomery
Auditor of State

March 29, 2006

PROJECT REBUILD COMMUNITY SCHOOL
STARK COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

The discussion and analysis of the Project REBUILD Community School (the School) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2005. Readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School's financial performance.

Table 1
Net Assets

	2005	2004
Assets:		
Cash and Other Current Assets	$109,405	$50
Capital Assets, Net	7,849	
Total Assets	117,254	50
Liabilities:		
Current Liabilities	34,653	24,827
Net Assets:		
Invested in Capital Assets	7,849	
Unrestricted	74,752	(24,777)
Total Net Assets	$82,601	($24,777)

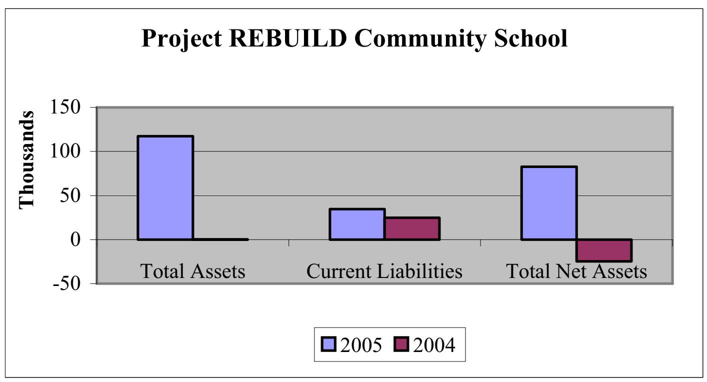
Financial Highlights

Project REBUILD received its charter from the Ohio Council of Community Schools in April of 2004 and began operations July 1, 2004. As a result, there were startup costs for fiscal year 2004 that are presented.

Key financial highlights for fiscal year 2005 are as follows:

- Total assets increased $117,204 in fiscal year 2005.
- Total revenue increased $526,737 in fiscal year 2005.
- Total expenses increased $394,582 in fiscal year 2005.
- Current liabilities increased $9,826 and current assets increased $109,355 in fiscal year 2005.
- Total net assets increased $107,378 in fiscal year 2005.

Using this Financial Report



This annual report consists of a series of financial statements and notes to those statements. The *Statement of Net Assets* and *Statement of Revenues, Expenses and Changes in Net Assets* reflect how the School did financially during fiscal year 2005. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting includes all of the current year revenues and expenses regardless of when cash is received or paid.

These statements report the School's *net assets* and changes in those assets. This change in net assets is important because it tells the reader whether the *financial position* of the School has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School's student enrollment, per-pupil funding as determined by the State of Ohio, change in technology, required educational programs and other factors. The School uses enterprise presentation for all of its activities.

Table 1 provides a summary of the School's net assets as of June 30, 2005 compared to the prior year.

Cash and cash equivalents increased in 2005 due to increased revenues (primarily federal grant revenues and state funding). Capital assets, net, increased as a result of acquisitions. Liabilities increased by $9,826 due to payroll liabilities due at year end. Total Net Assets increased by $107,378.

Table 2 shows changes in Net Assets for fiscal year 2005 compared with fiscal year 2004. Additionally see pie chart for expense allocation.

The revenue generated by a community school is almost entirely dependent on per-pupil allotment given by the State foundation and from federal entitlement programs. Foundation payments made up 89% of revenues for the School in fiscal year 2005. Grant revenues increased substantially due to the increase of state startup funding. Enrollment for the first year was approximately 60 students. Enrollment is projected to remain stable for fiscal year 2006; increase to 75 the following two years and increase to 90 students in 2009.

Table 2
Changes in Net Assets

	2005	2004
Operating Revenues		
Foundation	$444,967	
Other Operating Revenue	19,625	$50
Non-Operating Revenues		
Grants	62,195	
Total Revenues	526,787	50
Operating Expenses		
Salaries	209,867	
Fringe Benefits	45,123	
Purchased Services	93,109	19,397
Materials and Supplies	27,540	4,797
Rent	26,984	
Sponsor Fees	9,856	
Depreciation	321	
Other Operating Expenses	6,609	633
Total Expenses	419,409	24,827
Total Increase/(Decrease) in Net Assets	$107,378	($24,777)

Budgeting Highlights

The School is not required to follow the budgetary provisions set forth in Ohio Revised Code Section 5705, except for Section 5705.391.

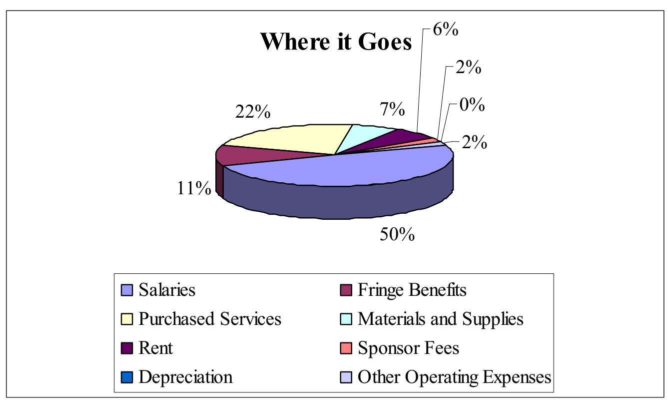
Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005, the School had $7,849 in net capital assets. This represents the School's telephone system which was purchased during the audit period. See Note 4 for additional information on capital assets.

Debt

At June 30, 2005, the School had no long term debt.



Current Financial Related Activities

The School's financial outlook over the next several years shows continued growth as enrollment is projected to increase.

Contacting the School's Financial Management

This financial report is designed to provide all citizens, taxpayers, and creditor's with a general overview of the School's finances. Questions concerning any of the information in this report or requests for additional information should be directed to Cherie Cox CFO, Project REBUILD Community School, 406 Shorb Avenue, Canton, Ohio 44703.

Project REBUILD Community School
Statement of Net Assets
June 30, 2005

	2005
Assets	
Current Assets:	
Cash and Cash Equivalents	$62,421
Receivables:	
Intergovernmental	46,984
Total Current Assets	109,405
Noncurrent Assets:	
Capital Assets:	
Depreciable Capital Assets, Net	7,849
Total Noncurrent Assets	7,849
Total Assets	117,254
Liabilities	
Current Liabilities:	
Accounts Payable	10,687
Accrued Wages and Benefits	15,323
Intergovernmental Payable	8,643
Total Current Liabilities	34,653
Net Assets	
Invested in Capital Assets	7,849
Unrestricted	74,752
Total Net Assets	$82,601

See accompanying notes to the basic financial statements

Project REBUILD Community School
Statement of Revenues,
Expenses and Changes in Net Assets
For the Fiscal Year Ended June 30, 2005

Operating Revenues	2005
Foundation	$444,967
Miscellaneous	19,625
Total Operating Revenues	464,592
Operating Expenses	
Salaries	209,867
Fringe Benefits	45,123
Purchased Services	93,109
Materials and Supplies	27,540
Rent	26,984
Sponsor Fees	9,856
Depreciation	321
Other	6,609
Total Operating Expenses	419,409
Operating Income	45,183
Non-Operating Revenues	
Grants	62,195
Total Non-Operating Revenues	62,195
Change in Net Assets	107,378
Net Assets Beginning of Year	(24,777)
Net Assets End of Year	$82,601

See accompanying notes to the basic financial statements

Project REBUILD Community School
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2005

Increase (Decrease) in Cash and Cash Equivalents	2005
Cash Flows from Operating Activities	
Cash Received from State	$423,224
Other Cash Receipts	19,625
Cash Payments to Employees for Services	(192,344)
Cash Payments for Employee Benefits	(36,480)
Cash Payments for Goods and Services	(163,425)
Other Cash Payments	(16,465)
Net Cash Provided by Operating Activities	34,135
Cash Flows from Noncapital Financing Activities	
Grants Received	36,954
Net Cash Provided by Noncapital Financing Activities	36,954
Cash Flows from Capital and Related Financing Activities	
Capital Assets Purchased	(8,170)
Credit Line Repayment	(548)
Net Cash (Used in) Financing Activities	(8,718)
Net Increase in Cash and Cash Equivalents	62,371
Cash and Cash Equivalents Beginning of Year	50
Cash and Cash Equivalents End of Year	$62,421

Reconciliation of Operating Gain to Net Cash Provided by Operating Activities	
Operating Gain	$45,183
Adjustments:	
Depreciation	321
(Increase) Decrease in Assets:	
Intergovernmental Receivable	(21,743)
Increase (Decrease) in Liabilities:	
Accounts Payable	(13,592)
Accrued Wages	15,323
Line of Credit	
Intergovernmental Payable	8,643
Net Cash Provided by Operating Activities	$34,135

See accompanying notes to the basic financial statements

This page intentionally left blank.

1. DESCRIPTION OF THE ENTITY

Project REBUILD Community School (the School) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School's objectives are to carry out the academic training component of the Project REBUILD, Inc. (PR) YouthBuild program and to advance underserved youth through education, job training, personal development, leadership development, and community service. The Project REBUILD program helps dropouts from traditional high schools in a year round program that enables students to gain employable skills by building and rehabilitating houses in Canton Zone that are sold to low-income families. The School, 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 School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School. The School was approved for operation from July 1, 2004 to June 30, 2009 under a contract by and between the Ohio Council of Community Schools (OCCS), as Sponsor, and the Governing Authority of Project REBUILD Community School, dated April 7, 2004. The School commenced official operation on July 1, 2004. The five member 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 Board oversees the School's principal, four certified part-time and one full-time teaching personnel who provided services to approximately 60 students during the school year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the School have been prepared in conformity with generally accepted accounting principles as applied to a governmental nonprofit organization. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School also applies Financial Accounting Standards Board statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The School does not apply FASB Statements or Interpretations issued after November 30, 1989. The more significant of the School's accounting policies are described below.

A. Basis of Presentation

The School's basic financial statements consist of a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows. The School uses enterprise accounting to maintain its financial records during the fiscal year. Enterprise accounting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods or services.

B. Measurement Focus/Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the School are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Net Assets presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets. The Statement of Cash Flows reflects how the School finances and meets its cash flow needs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus/Basis of Accounting (Continued)

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The accrual basis of accounting is used for reporting purposes. Revenue resulting from exchange transactions, in which each party gives and receives equal value, is recorded on the accrual basis when the exchange takes place. Revenue resulting from non-exchange transactions, in which the School receives value without directly giving equal value in return, such as grants, entitlements and donations, are recognized in the period in which all eligibility requirements have been satisfied. Deferred revenue arises when assets are recognized before the revenue recognition criteria have been satisfied. Expenses are recognized at the time they are incurred.

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5075, unless specifically provided in the School's contract with its Sponsor. The contract between the School and the 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, except for section 5705.391 as it relates to five-year forecasts and spending plans.

E. Cash

All cash received by the School is deposited in an account in the School's name. The School did not have any investments during fiscal year 2005.

F. Capital Assets and Depreciation

Capital assets and improvements are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market value as of the date received. The School maintains a capitalization threshold of five hundred dollars for all assets. The School does not possess any infrastructure.

The School does not capitalize interest. 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. Improvements, however, are capitalized. Buildings, vehicles, furniture and equipment are depreciated using the straight-line method over the assets' estimated useful lives. Improvements to fixed assets are depreciated over the remaining useful lives of the related capital assets. The following is the estimated useful lives for property, vehicles, furniture and equipment:

Assets	Useful Life
Buildings and Improvements	25-40 years
Land Improvements	10-20 years
Vehicles	5-10 years
Furniture and Equipment	5-10 years

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Intergovernmental Revenues

The School currently participates in the State Foundation Program and State Disadvantaged Pupil Impact Aid Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met. Grants and entitlements, non-exchange transactions in which the School receives value without directly giving equal value in return, are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. The School participates in the Comprehensive Continuous Improvement Planning Program through the Ohio Department of Education. Revenue received from this program is recognized as non-operating revenue. Amounts awarded under the above programs for the 2005 school year totaled $507,162.

H. Compensated Absences

Leave benefits are not accrued as a liability for the School. All leave is to be used during the contract year with no provisions for carry over from one school year to the next. Vacation leave is scheduled in advance according to the school calendar. Sick leave must be used during the school year, is non-accumulative, and is not paid out at the end of the school year.

I. Estimates

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

J. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, consists of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors, or contracts. The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The School had no restricted net assets at June 30, 2005.

K. Operating Revenues and Expenses

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

L. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase by the School and an expense is recorded when used. The School had no prepaid items at June 30, 2005.

3. CASH

At June 30, 2005, the carrying amount of the School's deposits was $62,421. Based on the criteria described in GASB Statement No. 40 "Deposits and Investment Risk Disclosures", as of June 30, 2005 the bank balance was $64,611. The total bank balance was insured by the Federal Deposit Insurance Corporation (FDIC). The School had no investments at June 30, 2005 or during the fiscal year.

Custodial credit risk is the risk that, in the event of bank failure, the School'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 School.

4. CAPITAL ASSETS

A summary of the schools capital assets is a follows:

	Balance June 30, 2004	Additions	Disposals	Balance June 30, 2005
Furniture and Equipment	$0	$8,170	$0	$8,170
Less: Accumulated Depreciation	0	(321)	0	(321)
Net Capital Assets	$0	$7,849	$0	$7,849

5. RISK MANAGEMENT

A. Property and Liability

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. For fiscal year 2005, the School contracted with Indiana Insurance Company for property and general liability insurance with limits of $5,000,000 each occurrence and $10,000,000 aggregate. Claims did not exceed insurance coverage over the past year.

B. Worker's Compensation

The School pays the State Worker's Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State. The School had paid all premiums as of June 30, 2005.

6. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per 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 43215-3476.

Plan members are required to contribute 10% of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for the fiscal year 2005, 10.57% of annual covered salary was the portion to fund pension obligations. For fiscal year 2004, 9.09% was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal year ended June 30, 2005 was $4,824; 96% has been contributed for fiscal year 2005.

B. State Teachers Retirement System

The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090 or by visiting the STRS Ohio website at www.strsoh.org. New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code. A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

6. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

For the fiscal year ended June 30, 2005, plan members were required to contribute 10% of their annual covered salaries. The School was required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School's required contributions for pension obligations for the fiscal years ended June 30, 2005 was $19,073.

79% has been contributed for fiscal year 2005. As of June 30, 2005, the School's cumulative liability to STRS Ohio was $4,220.

7. POST-EMPLOYMENT BENEFITS

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis. STRS retirees who participate in the combined plans and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14% of covered payroll. For fiscal year ended June 30, 2005, the STRS Ohio Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund. For the School, this equaled $1,467 for fiscal year 2005. STRS Ohio pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was $3.1 billion at June 30, 2004, the latest information available. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were $268,739,000 and STRS Ohio had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level. After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43% of covered payroll, a decrease of 1.48% from fiscal year 2004, however, the surcharge is capped at 2% of each employer's SERS salaries.

In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at $27,400. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2005 fiscal year equaled $1,565. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care at June 30, 2004 (latest information available) were $223,443,805 and the target level was $335.2 million. At June 30, 2005, SERS had net assets available for payment of health care benefits of $300.8 million. SERS has approximately 62,000 participants receiving health care benefits.

8. MEDICAL AND DENTAL EMPLOYEE BENEFITS

The Project REBUILD, Inc. (PR) has contracted with Hometown Network for a group eligible medical policy including full-time employees of the School. All full-time employees are eligible to select coverage under this plan, once they have been employed by the School for thirty days.

Employees pay a portion of the premium as a payroll withholding in a flat amount depending on the type of coverage chosen. Project REBUILD, Inc. paid for the remaining employer portion of the premiums for the School employees. There was no dental plan available in fiscal year 2005.

9. PURCHASED SERVICES

For the period July 1, 2004 through June 30, 2005, purchased service expenses were for the following services:

Professional Services	$41,129
Property Services	12,269
Travel and Meetings	3,690
Communications	8,768
Utilities	4,500
Trade Services	1,166
Pupil Transportation	310
Insurance	21,277
Total	$93,109

10. TAX EXEMPT STATUS

In June 2005, the School completed its application and filed for tax exempt status under 501(c) 3 of the Internal Revenue Code. At this time, the application is pending approval. Management is not aware of any course of action or series of events that have occurred that might adversely affect the School's tax-exempt status.

11. RELATED ORGANIZATIONS/RELATED PARTY TRANSACTIONS

The School is a related organization to Project REBUILD, Inc., a non-profit organization affiliated with YouthBuild USA. A description of the School's relationship with these entities follows.

Three of the School Board members are also Board Members of Project REBUILD, Inc. The School Board President is the Executive Director of Project Rebuild, Inc. and the CFO splits her time between the School and Project REBUILD, Inc. Project REBUILD does not impose its will on the School Board. The School Board sets its own budget, hires/terminates personnel, and authorizes all expenditures. Related party transactions with PR were as follows:

Description of Transaction	Amount
Amounts received from PR:	
Loans* and prepaid expenses	$42,283
Donations and credits	13,700
For medical, dental, disability benefits (note 8)	7,865
Disbursements to PR:	
Repayments on Loans*	37,030

*There is no written contract agreement or terms of this loan.

12. CONTINGENCIES

A. Grants

The School received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the School. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2005.

B. State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding decision is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "…the Ohio General Assembly to enact a school funding scheme that is thorough and efficient…". The School is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

C. Full Time Equivalency

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the School. These reviews are conducted to ensure the School is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. An initial fiscal year 2005 FTE review was conducted on site by ODE on June 23, 2005. No errors were identified during the initial FTE review process. However, subsequent to year end the review resulted in an adjustment which is reflected in the accompanying financial statement as intergovernmental receivable.

D. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. On April 21, 2003 the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard for oral argument on November 18th, 2003. On August 24, 2004, the Court of Appeals rendered a decision that community schools are part of the State Public Educational System and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral arguments occurred November 29, 2005. The effect of this suit, if any, on the School is not presently determinable.

13. NET ASSETS

The School received its charter from the Ohio Council of Community Schools in April of 2004 and began operations July 1, 2004. The School received assistance from PR to off set start-up costs prior to the beginning of the fiscal year. The School incurred miscellaneous expenses of $633, purchased services of $19,397 and materials and supplies of $4,797 and received a donation of $50 resulting in beginning net assets of ($24,777) as of July 1, 2004.

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

Project REBUILD Community School
Stark County
406 Shorb Avenue NW
Canton, Ohio 44703-2617

To the Board of Trustees:

We have audited the basic financial statements of the Project REBUILD Community School, Stark County, Ohio, (the School) as of and for the year ended June 30, 2005, which collectively comprise the School's basic financial statements and have issued our report thereon dated March 29, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School's management dated March 29, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the School's management dated March 29, 2006, we reported a matter related to noncompliance we deemed immaterial.

101 Central Plaza South / 700 Chase Tower / Canton, OH 44702
Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001
www.auditor.state.oh.us

We intend this report solely for the information and use of management and the Board of Trustees. It is not intended for anyone other than these specified parties.

Betty Montgomery

Betty Montgomery
Auditor of State

March 29, 2006

Auditor of State
Betty Montgomery

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

PROJECT REBUILD COMMUNITY SCHOOL

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
MAY 11, 2006