

**Five R's Academy**  
*Audited Financial Statements*

**June 30, 2009**





# Mary Taylor, CPA

Auditor of State

Board of Directors  
Five R's Academy  
4526 Ridge Avenue, S.E.  
Canton, Ohio 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 July 1, 2008 through June 30, 2009. 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

March 2, 2010

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

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# Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

*Focused on Your Future.*

December 28, 2009

To the Board of Directors  
Five R's Academy  
4526 Ridge Avenue  
Canton, OH 44707

## INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the business-type activities of Five R's Academy (the "Academy"), as of and for the year ended June 30, 2009, which comprises the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 respective financial position of Five R's Academy, as of June 30, 2009, and the respective changes in financial position and 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 December 28, 2009 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. 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.

The Management's Discussion and Analysis on pages 3 through 6 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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 FISCAL YEAR ENDED JUNE 30, 2009

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 fiscal year ended June 30, 2009. 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 2009 are as follows:

- In total, net assets were \$160,520 at June 30, 2009.
- The Academy had operating revenues of \$178,552 and operating expenses of \$229,526 for fiscal year 2009. Total change in net assets for the fiscal year was a decrease of \$50,974.

**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 ask the question, "How did we do financially during 2009?" 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.

These two statements 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**  
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**STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

The table below provides a summary of the Academy's net assets for fiscal year 2009 and 2008.

	<b>Net Assets</b>	
	<u>2009</u>	<u>2008</u>
<b><u>Assets</u></b>		
Current assets	\$ 291	\$ 479
Capital assets, net	<u>160,229</u>	<u>211,015</u>
Total assets	<u>160,520</u>	<u>211,494</u>
<b><u>Net Assets</u></b>		
Invested in capital assets	160,229	211,015
Unrestricted	<u>291</u>	<u>479</u>
Total net assets	<u><u>\$ 160,520</u></u>	<u><u>\$ 211,494</u></u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2009, the Academy's net assets totaled \$160,520.

The balance of unrestricted net assets of \$291 may be used to meet the Academy's ongoing obligation to the students and creditors.

At June 30, 2009, capital assets represented 99.82% 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 FISCAL YEAR ENDED JUNE 30, 2009

The table below shows the changes in net assets for fiscal year 2009 and 2008.

**Change in Net Assets**

	<u>2009</u>	<u>2008</u>
<b><u>Operating Revenues:</u></b>		
State foundation	\$ 178,427	\$ 160,446
Other	<u>125</u>	<u>-</u>
Total operating revenue	<u>178,552</u>	<u>160,446</u>
<b><u>Operating Expenses:</u></b>		
Purchased services	178,320	246,434
Materials and supplies	-	42,368
Depreciation	50,786	33,602
Other	<u>420</u>	<u>420</u>
Total operating expenses	<u>229,526</u>	<u>322,824</u>
<b><u>Non-operating Revenues:</u></b>		
Federal and State grants	<u>-</u>	<u>286,094</u>
Total non-operating revenues	<u>-</u>	<u>286,094</u>
Change in net assets	(50,974)	123,716
Net assets at beginning of year	<u>211,494</u>	<u>87,778</u>
Net assets at end of year	<u>\$ 160,520</u>	<u>\$ 211,494</u>

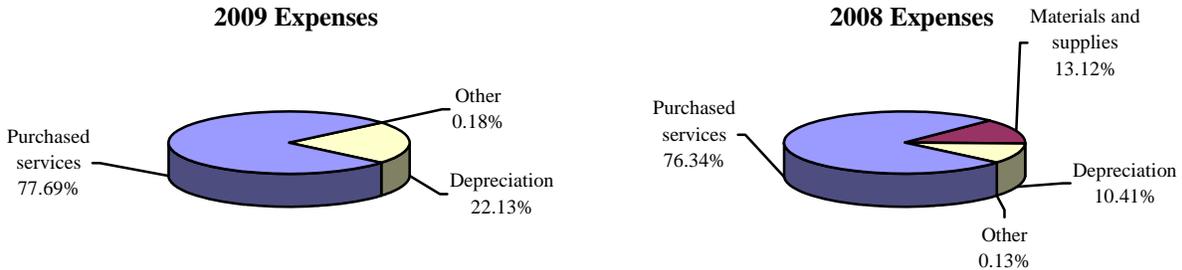
The decrease in federal and State grants is due to the ending of the federal planning grants funds for the Academy. The Academy received \$150,000 a year, for three years, to plan, equip, and implement the community school plan. For fiscal year 2008 and 2009, the Academy relied on State Foundation funds. Expenses decreased during fiscal year 2009 as less revenues were available.

The charts below and on the following page illustrate the revenues and expenses for the Academy during fiscal year 2009 and 2008.



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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009



**Capital Assets**

At June 30, 2009 the Academy had \$160,229 invested in furniture and equipment. See Note 7 to the basic financial statements for more detail on capital assets.

**Current Financial Related Activities**

The Academy is sponsored by Canton Local School District. The Academy is reliant solely upon State Foundation monies 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 State and federal funds that are made available to finance operations.

**Contacting the 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.

**BASIC  
FINANCIAL STATEMENTS**

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

STATEMENT OF NET ASSETS  
 JUNE 30, 2009

<b>Assets:</b>	
Current assets:	
Cash and cash equivalents. . . . .	\$ 81
Prepayments . . . . .	210
Total current assets. . . . .	<u>291</u>
Non-current assets:	
Capital assets, net. . . . .	<u>160,229</u>
Total assets . . . . .	<u>160,520</u>
<b>Net assets:</b>	
Invested in capital assets . . . . .	160,229
Unrestricted. . . . .	<u>291</u>
Total net assets . . . . .	<u><u>\$ 160,520</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 FISCAL YEAR ENDED JUNE 30, 2009

<b>Operating revenues:</b>	
State foundation. . . . .	\$ 178,427
Other. . . . .	125
Total operating revenue . . . . .	<u>178,552</u>
 <b>Operating expenses:</b>	
Purchased services. . . . .	178,320
Depreciation . . . . .	50,786
Other. . . . .	420
Total operating expenses. . . . .	<u>229,526</u>
 Change in net assets . . . . .	 (50,974)
 <b>Net assets at beginning of year . . . . .</b>	 <u>211,494</u>
<b>Net assets at end of year. . . . .</b>	<u><u>\$ 160,520</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 FISCAL YEAR ENDED JUNE 30, 2009

<b>Cash flows from operating activities:</b>		
Cash received from State foundation. . . . .	\$	178,427
Cash received from other operations . . . . .		125
Cash payments to suppliers for goods and services . . . . .		(178,320)
Cash payments for other expenses . . . . .		(420)
		(188)
Net cash used in operating activities . . . . .		(188)
Net decrease in cash and cash equivalents . . . . .		(188)
<b>Cash and cash equivalents at beginning of year. . . . .</b>		<b>269</b>
<b>Cash and cash equivalents at end of year. . . . .</b>	<b>\$</b>	<b>81</b>
 <b>Reconciliation of operating loss to net cash used in operating activities:</b>		
Operating loss . . . . .	\$	(50,974)
Adjustments:		
Depreciation. . . . .		50,786
		(188)
Net cash used in operating activities . . . . .	<b>\$</b>	<b>(188)</b>

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 FISCAL YEAR ENDED JUNE 30, 2009

**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 Chapter 3314 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 FISCAL YEAR ENDED JUNE 30, 2009

**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 Chapter 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 Chapter 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 FISCAL YEAR ENDED JUNE 30, 2009

**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.

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, 2009, 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. The Academy did not have any federal or State grant revenue, other than foundation revenues, for the fiscal year ended June 30, 2009.

**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 FISCAL YEAR ENDED JUNE 30, 2009

**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, 2009, the carrying amount of the Academy's deposits was \$81 and the bank balance was \$81. The entire bank balance was covered by federal depository insurance.

**NOTE 4 - 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 fiscal year ended June 30, 2009, 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.

**NOTE 5 - PURCHASED SERVICES**

At June 30, 2009, purchased services expenses were as follows:

Instructional services	<u>\$ 178,320</u>
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**NOTE 6 - 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. 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 for the fiscal year ended June 30, 2009 from the Academy to the Sponsor:

Educational services	\$178,320
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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.

**FIVE R'S ACADEMY**  
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**STARK COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

**NOTE 7 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

	Balance <u>06/30/08</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>06/30/09</u>
Furniture and equipment	\$ 253,931	\$ -	\$ -	\$ 253,931
Less: accumulated depreciation	<u>(42,916)</u>	<u>(50,786)</u>	<u>-</u>	<u>(93,702)</u>
Capital assets, net	<u>\$ 211,015</u>	<u>\$ (50,786)</u>	<u>\$ -</u>	<u>\$ 160,229</u>

**NOTE 8 - CONTINGENCIES**

**A. Grants**

The Academy received financial assistance from 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, 2009.

**B. Litigation**

The Academy is not involved in any litigation that, in the opinion of management, would have material effect on the financial statements.

**NOTE 9 - ACCOUNTABILITY AND COMPLIANCE**

**Change in Accounting Principles**

For fiscal year 2009, the Academy has implemented GASB Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations", GASB Statement No. 52, "Land and Other Real Estate Held as Investments by Endowments", GASB Statement No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", and GASB Statement No. 56 "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards".

GASB Statement No. 49 addresses accounting and financial reporting standards for pollution remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The implementation of GASB Statement No. 49 did not have an effect on the financial statements of the Academy.

**FIVE R'S ACADEMY**  
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**STARK COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

**NOTE 9 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The implementation of GASB Statement No. 52 did not have an effect on the financial statements of the Academy.

GASB Statement No. 55 incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB's authoritative literature. The implementation of GASB Statement No. 55 did not have an effect on the financial statements of the Academy.

GASB Statement No. 56 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' (AICPA) Statements on Auditing Standards. The implementation of GASB Statement No. 56 did not have an effect on the financial statements of the Academy.



# Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

*Focused on Your Future.*

December 28, 2009

To the Board of Directors  
Five R's Academy  
4526 Ridge Avenue  
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 financial statements of Five R's Academy (the Academy) as of and for the year ended June 30, 2009, and have issued our report thereon dated December 28, 2009. 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 Standard*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting as a basis for designing our 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 academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the academy's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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. We consider the item number 2009-001 described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

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.

Our consideration of the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe that item 2009-001 is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the Academy in a separate letter dated December 28, 2009.

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

This report is intended solely for the information and use of management, Board of Directors, Canton Local School District (Academy's Sponsor), others within the entity, and is not intended to be and should not be used by anyone other than those specified parties.

*Rea & Associates, Inc.*

FIVE R'S ACADEMY  
STARK COUNTY  
SCHEDULE OF FINDINGS  
June 30, 2009

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**Material Weakness**

<b>FINDING NUMBER</b>	<b>2009-001</b>
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As a result of our audit, we identified two material misstatements in the Academy's financial statements. These adjustments were due to the following:

In the prior audit period, an audit adjustment was posted to increase capital assets by \$22,076 for additional assets identified during fieldwork. However, the Academy's detailed capital asset ledgers were not updated with the audit adjustments. During the fiscal year 2009 compilation, an adjustment was made to the capital asset balance on the financial statements to reconcile to the Academy's detailed ledgers. A second adjustment in the amount of \$25,308 was necessary to correct a miscalculation of current year depreciation expense.

We recommend the School District improve internal controls over capital assets to ensure the capital asset ledger is representative of actual capital assets held by the Academy.

**Management's Response:**

We have corrected our records to correctly reflect the capital assets of the Academy.



**Rea & Associates, Inc.**

ACCOUNTANTS AND BUSINESS CONSULTANTS

*Focused on Your Future.*

**INDEPENDENT ACCOUNTANT'S REPORT  
ON APPLYING AGREED-UPON PROCEDURES**

December 28, 2009

To the Board of Directors  
Five R's Academy  
4526 Ridge Avenue  
Canton, OH 44707

To the Board of Directors:

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

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

1. We noted the Board adopted an anti-harassment policy at its meeting in January and April 2006.
2. We read the policy, noting it included the following requirements from Ohio Rev. Code Section 3313.666(B):
  - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;

- (2) A definition of harassment, intimidation, or bullying that shall include the definition in division (A) of Ohio Rev. Code Section 3313.666;
  - (3) A procedure for reporting prohibited incidents;
  - (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
  - (5) 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;
  - (6) A procedure for documenting any prohibited incident that is reported;
  - (7) A procedure for responding to and investigating any reported incident;
  - (8) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
  - (9) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States.
3. The policy excluded the following required element:
- (1) A requirement that the academy administration semiannually provide the president of the academy board a written summary of all reported incidents and post the summary on its web site, if the academy 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 of Education and is not intended to be and should not be used by anyone other than these 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  
MARCH 16, 2010**