RICHARD ALLEN ACADEMY COMMUNITY SCHOOL

Basic Financial Statements

June 30, 2005

with

Independent Auditors' Report

Auditor of State
Betty Montgomery

Board of Trustees
Richard Allen Academy Community School
368 South Patterson Blvd.
Dayton, Ohio 45402

We have reviewed the *Independent Auditors' Report* of the Richard Allen Academy Community School, Montgomery County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2004 through June 30, 2005. 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 Richard Allen Academy Community School is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

December 19, 2006

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RICHARD ALLEN ACADEMY COMMUNITY SCHOOL

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Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS
www.cshco.com

Independent Auditors' Report

Richard Allen Academy Community School
368 South Patterson Blvd.
Dayton, Ohio 45402

We have audited the accompanying financial statements of the Richard Allen Academy Community School (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 *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 Richard Allen Academy Community School as of June 30, 2005, and the 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 July 14, 2006, on our consideration of the School's internal control over financial reporting and on 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 on compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or 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 2 through 5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires 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.

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
July 14, 2006

The discussion and analysis of Richard Allen Academy Community School's (the School) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented, and is presented in the MD&A.

Financial Highlights

Key financial highlights for fiscal year 2005 are as follows:

- Total net assets increased $12,901 in fiscal year 2005, which represents 34.6 percent increase from fiscal year 2004, as a result of decreases in the liabilities reported at year-end compared with the prior year.

- Total assets decreased $66,057 which represents a 36.4 percent decrease from the prior year. The decrease is due to the lower cash balance on hand at June 30, 2005 as well as a lower carrying value of capital assets due to current year depreciation expense exceeding additions.

- The operating loss reported for fiscal year 2005 ($171,177) was $14,113 more than the operating loss reported for fiscal year 2004 or a 9.0 percent decrease.

Using this Financial Report

This financial report contains the basic financial statements of the School, as well as the Management's Discussion and Analysis and notes to the basic financial statements. The basic financial statements include a statement of net assets, statement of revenues, expenses and changes in net assets, and a statement of cash flows. As the School reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity, therefore the entity wide and the fund presentations information is the same.

Statement of Net Assets

The statement of net assets answers the question, "How did we do financially during the fiscal year?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term, using the accrual basis of accounting and the economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

This statement reports the School's net assets, however, in evaluating the overall position and financial viability of the School, non-financial information such as the condition of the School building and potential changes in the laws governing charter schools in the State of Ohio will also need to be evaluated.

Table 1 provides a summary of the School's net assets for fiscal year 2005 compared with fiscal year 2004.

Table 1
Net Assets

	2005	2004
Assets:		
Current and other assets	$ 61,583	$ 110,752
Capital assets, net	53,631	70,519
Total Assets	115,214	181,271
Liabilities:		
Current liabilities	64,973	124,882
Non-current liabilities	-	19,049
Total Liabilities	64,973	143,931
Net Assets:		
Invested in capital assets	53,631	55,074
Restricted	13,976	23,845
Unrestricted	(17,366)	(41,579)
Total Net Assets	$ 50,241	$ 37,340

Total net assets of the School increased by $12,901 or 34.6 percent. The increase in total net assets from fiscal year 2004 is due primarily to decreases in the liability amounts reported by the School at June 30, 2005. Accrued amounts for contract labor and benefits were $41,629 less than the amounts reported for fiscal year 2004 as there were only two pay-periods in July which were recorded as a liability instead of three for the prior year. In addition, total liabilities decreased due to the School paying off a capital lease obligation early during the year as well as the $10,000 note payable issued in the prior year to provide operating funds.

As noted in Table 1 above, reported assets for the School decreased by $66,057 from the total assets reported at June 30, 2004. The balance of cash on hand decreased by approximately $50,000 during the year, some of which was used to retire the capital lease obligation and note payable noted above. The decrease in the book value of the capital assets ($16,888) is the other significant factor in the decrease in total assets. During fiscal year 2005 the current year depreciation expense exceeded the additions accounting for the decrease in the book value of the capital assets.

The $9,869 decrease in restricted net assets reported at June 30, 2005 compared with the prior year is due to the School utilizing its federal funding to a greater degree during the fiscal year which reduces the amount of grant funds on hand and grants receivable at the end of the fiscal year.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2005, as well as revenue and expense comparisons to fiscal year 2004.

Table 2
Change in Net Assets

	2005	2004
Operating Revenues:		
Foundation payments	$ 1,344,277	$ 1,188,468
Disadvantaged pupil impact aid	132,763	176,486
Miscellaneous operating revenue	980	12,998
Non-Operating Revenues:		
State and federal grants	184,709	164,401
Total Revenues	1,662,729	1,542,353
Operating Expenses		
Salaries	-	4,079
Fringe benefits	167,607	190,920
Contractual employees	832,466	783,092
Management company fees	337,087	341,428
Building rental	63,242	64,465
Other purchased services	122,303	29,250
Materials and supplies	98,730	94,286
Depreciation	24,773	25,638
Other expenses	2,989	1,858
Non-Operating Expenses:		
Interest and fiscal charges	631	838
Total Expenses	1,649,828	1,535,854
Change in Net Assets	12,901	6,499
Net Assets, Beginning of Year	37,340	30,841
Net Assets, End of Year	$ 50,241	$ 37,340

The increase in foundation revenue noted for fiscal year 2005 is the result of increases in the per pupil funding amounts used by the Ohio Department of Education (ODE) to calculate foundation. In addition, a $26,864 intergovernmental receivable was recorded at June 30, 2005 to recognize the additional funds the School will receive in the next school year based on ODE's audit of fiscal year 2005 foundation payments to the School. This audit determined the School should have received these additional funds. In the prior year, the audit determined the School was overfunded by $19,488 which reduced the revenues for fiscal year 2004. Funding provided through state and federal educational program grants increased $20,308 over fiscal year 2004 funding levels.

Total expenses of the School reported the fiscal year were $113,974 more than those reported for the previous fiscal year. While fringe benefits and payroll costs appear relatively consistent, the actual cost of labor and benefits increased due to cost of living wage adjustments and the escalating cost of providing insurance and retirement benefits. Certain positions within the School which were once reported as wages are now classified as purchased services. In August 2003, all employees of the School were recognized as employees of the Institute of Charter School Management Resources, Inc. (ICSMR). ICSMR became responsible for paying the wages and benefits of the employees and the School would then be invoiced for those costs. Because of this change, costs associated with certain positions are now being reported as purchased services.

Capital Assets

At June 30, 2005 capital assets of the School consisted of $139,549 of leasehold improvements, equipment and vehicles which was offset by $85,918 in accumulated depreciation resulting in net capital assets of $53,631. During the year the School added $7,885 of computer and other equipment. Current year depreciation expense was $24,773.

See Note 7 of the notes to the basic financial statements for more detailed information on the School's capital assets.

Debt

During fiscal year 2005 the School paid off the $10,000 demand note payable issued in the prior fiscal year for cash flow purposes as well as $15,445 in capital lease obligations used to obtain equipment.

See Notes 6 and 8 to the basic financial statements for additional details.

Contacting the School

This financial report is designed to provide a general overview of the finances of the Richard Allen Academy Community School and to show the School's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to: Richard Allen Community School, 368 South Patterson Blvd, Dayton, OH 45402.

RICHARD ALLEN ACADEMY COMMUNITY SCHOOL

Statement of Net Assets

As of June 30, 2005

Assets	
Current assets:	
Cash	$ 8,050
Receivables:	
Intergovernmental	41,802
Accounts	11,104
Prepaid expenses	627
Total current assets	61,583
Noncurrent assets:	
Capital assets (net of accumulated depreciation)	53,631
Total noncurrent assets	53,631
Total assets	115,214
Liabilities	
Current liabilities:	
Accounts payable	7,613
Accrued contract labor	46,781
Intergovernmental payable	7,235
Compensated absences payable	3,344
Total liabilities	64,973
Net Assets	
Invested in capital assets	53,631
Restricted for educational grants	13,976
Unrestricted	(17,366)
Total net assets	$ 50,241

See accompanying notes to the basic financial statements

RICHARD ALLEN ACADEMY COMMUNITY SCHOOL

Statement of Revenues, Expenses and Changes in Net Assets

For the Year Ended June 30, 2005

Operating revenues:	
Foundation payments	$ 1,344,277
Disadvantaged pupil impact aid	132,763
Miscellaneous revenue	980
Total operating revenues	1,478,020
Operating expenses:	
Fringe benefits	167,607
Contractual employees	832,466
Management company fees	337,087
Building rental	63,242
Other purchased services	122,303
Materials and supplies	98,730
Depreciation	24,773
Other	2,989
Total operating expenses	1,649,197
Operating loss	(171,177)
Nonoperating revenues/(expenses):	
State and federal grant revenue	184,709
Interest and fiscal charges	(631)
Net nonoperating revenues	184,078
Change in net assets	12,901
Net assets, beginning of year	37,340
Net assets, end of year	$ 50,241

See accompanying notes to the basic financial statements

RICHARD ALLEN ACADEMY COMMUNITY SCHOOL
Statement of Cash Flows
For the Year Ended June 30, 2005

INCREASE (DECREASE) IN CASH	
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash from State of Ohio	$ 1,430,688
Cash payments to suppliers for goods and services	(639,808)
Cash payments for contractual employees and benefits	(1,004,735)
Other operating revenue	980
Net cash used by operating activities	(212,875)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Federal and state grant revenues	196,264
Principal paid on note payable	(10,000)
Net cash provided by noncapital financing activities	186,264
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital acquisitions	(7,885)
Principal paid on capital lease	(15,445)
Interest & other charges paid on capital lease	(631)
Net cash used by capital and related financing activities	(23,961)
NET DECREASE IN CASH	(50,572)
CASH, BEGINNING OF YEAR	58,622
CASH, END OF YEAR	$ 8,050
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	$ (171,177)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation	24,773
Changes in assets and liabilities:	
Increase in intergovernmental receivable	(26,864)
Decrease in accounts receivable	13,466
Decrease in prepaid expenses	440
Decrease in accounts payable	(7,120)
Decrease in contract labor payable	(26,321)
Decrease in intergovernmental payable	(15,308)
Decrease in compensated absences payable	(4,764)
Total Adjustments	(41,698)
Net cash used by operating activities	$ (212,875)

See accompanying notes to the basic financial statements

1. Description of the School and Reporting Entity:

Richard Allen Academy Community School (the School) is a state nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service. The School, which is part of the State's education program, is independent of any school district. 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 contracts with the Institute of Charter School Management and Resources, Inc. (ICSMR) for a variety of services including management consulting, Ohio Department of Education consulting, Education Management Information System (EMIS) monitoring and consulting, technology and operational support, teacher training, supervision of certified and non-certified personnel and assistance in grant applications. In addition all employees of the School are ICSMR employee's and are subsequently contracted to the School. The School is responsible for reimbursing ICSMR for the payroll and benefits of the employees assigned to the School. (See note 12 for additional detail on the contractual relationship between ICSMR and the School).

The School was originally approved for operation under contract with the Ohio State Board of Education (Sponsor) for a period of five years commencing with fiscal year July 1, 1999 through June 30, 2004. The School applied for and received a one year extension of the Sponsor Contract with the Sponsor for fiscal year 2005. In June 2005, the Board of Trustees (the Board) approved entering into a one-year agreement with St. Aloysius Orphanage in Cincinnati Ohio to become the School's Sponsor. Effective April 1, 2006 the Board, with the approval of St. Aloysius, agreed to assign the Sponsor Contract to KIDS County of Dayton, Inc. for the remainder of the 2005-2006 school year as well as the 2006-2007 school year.

The School operates under a self-appointing ten-member Board of Trustees (the Board). The School's Code of Regulations specifies that vacancies that arise on the Board be filled by the appointment of a successor trustee by a majority vote of the then existing trustees. The Board is responsible for carrying out the provisions of the contract with the Sponsor which includes but is not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The School's enrollment of 193 students for fiscal year 2005 represents a 16.8 percent decline from the prior year.

2. Summary of Significant Accounting Policies:

The financial statements of the School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. 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 (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The School has elected not to apply FASB statements and interpretations issued after November 30, 1989. The more significant of the School's accounting policies are described below.

A. Basis of presentation

Enterprise accounting is used to account for operations that are financed and operated in manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) 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

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. 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 is defined as net assets. Net assets are segregated into three categories: 1) net assets invested in capital assets, 2) restricted net assets and 3) unrestricted net assets. The statement of revenues, expenses and changes in net assets 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 Rev. Code Section 5705, unless specifically provided in the Schools contract with its Sponsor. The contract between the School and its Sponsor does prescribe an annual budget requirement in addition to preparing a five-year forecast which is to be updated on an annual basis.

D. Cash

All monies received by the School are maintained in a demand deposit account. For internal accounting purposes, the School segregates its cash into separate funds.

E. Estimates

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

F. Capital assets and depreciation

Capital assets 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 $500. The School 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 the asset's life are expensed.

Depreciation is computed using the straight-line method over estimated useful lives of five years for leasehold improvements and vehicles, and five to seven years for equipment. Improvements to capital assets are depreciated over the remaining useful lives of the related fixed assets.

G. Intergovernmental revenues

The School currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid (DPIA) Program. These programs are recognized as operating revenues in the accounting period in which they are earned, essentially the same as the fiscal year. Federal and state grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements of the grants have been met.

H. Operating and non-operating revenues and expenses

Operating revenues are those revenues that are generated directly by the School's primary mission. For the School, operating revenues include foundation payments and disadvantaged pupil impact aid received from the State of Ohio. Operating expenses are necessary costs incurred to support the School's primary mission, including depreciation.

Non-operating revenues and expenses are those that are not generated directly by the School's primary mission. Various state and federal grants and interest expense comprise the non-operating revenues and expenses of the School.

I. Accrued liabilities payable

The School has recognized certain liabilities on its statement of net assets relating to expenses, which are due but unpaid as of June 30, 2005, including:

Accrued Contract Labor – salary reimbursements to ICSMR made after year-end which were for services employees rendered in fiscal year 2005. Teaching personnel are paid in 24 equal installments, ending with the last pay period in July, for services rendered during the previous school year. Therefore, a liability has been recognized at June 30, 2005 for all salary payments made to teaching personnel during the month of July 2005.

Intergovernmental payable – payment for the employer's share of the retirement contribution ($6,549), workers' compensation ($69) and Medicaid ($617) associated with services rendered during fiscal year 2005, but were not paid until the subsequent fiscal year.

J. Federal tax exemption status

The School is a non-profit organization that has been determined by the Internal Revenue Service to be exempt from federal income taxes as a tax-exempt organization under Section 501 (c)(3) of the Internal Revenue Code. 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.

K. 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 School applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

3. Change in Accounting Principles:

For fiscal year 2005, the School has implemented Governmental Accounting Standards Board (GASB) Statement No. 40, "Deposits and Investment Risk Disclosure". GASB Statement No. 40 establishes and modifies the disclosures requirements related to risk associated with deposits and investments. The implementation of this Statement did not result in any change to the School's financial statement.

4. Deposits and Investments:

Custodial credit risk for deposits is the risk that in the event of bank failure, the School will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, the carrying amount of the School's deposits was $8,050 and the bank balance was $30,873. The entire bank balance was covered by federal depository insurance and therefore not considered to be subject to custodial credit risk.

5. Receivables:

A. Intergovernmental

All intergovernmental receivables are considered collectible in full due to the stable condition of State programs, and the fiscal year guarantee of federal funds. Intergovernmental receivables of the School at June 30, 2005 consisted of the adjustment to the School's fiscal year 2005 foundation funding by the Ohio Department of Education ($26,864) and the following state and federal grants in which all grant requirements had been satisfied, Title I ($12,998), and Student Intervention Program ($1,941).

B. Accounts

Included within accounts receivables are monies due from ICSMR associated with an advance on future contractual management services to be provided. No formal agreement has been established regarding the repayment of this advance but it is anticipated the amount will be collected in full.

6. Capital Leases Payable:

The School entered into a lease for copier equipment in a prior fiscal year. The terms of the agreement provides an option to purchase the copier. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases," which defines a capital lease generally as one, which transfers benefits and risks of ownership to the lessee. Capital assets acquired by lease have been capitalized in an amount equal to the present value of the future minimum lease payments of $22,500. At the time of acquisition, a corresponding liability was recorded; the balance of this lease obligation ($15,445) was paid off in fiscal year 2005.

7. Capital Assets:

A summary of the School's capital assets at June 30, 2005, follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets being depreciated:				
Leasehold improvements	$ 34,865	$ -	$ -	$ 34,865
Equipment	85,799	7,885	-	93,684
Vehicles	11,000	-	-	11,000
Total	131,664	7,885	-	139,549
Less: accumulated depreciation on:				
Leasehold improvements	(22,798)	(4,897)	-	(27,695)
Equipment	(32,430)	(17,676)	-	(50,106)
Vehicles	(5,917)	(2,200)	-	(8,117)
Total	(61,145)	(24,773)	-	(85,918)
Net capital assets	$ 70,519	$ (16,888)	$ -	$ 53,631

8. Note Payable:

The following is a summary of the note activity for the School at June 30, 2005:

	Beginning Balance	Increase	Decrease	Ending Balance
Demand Promissory Note	$ 10,000	$ -	$ 10,000	$ -

The demand promissory note was issued by the Institute of Charter School Management and Resources, Inc. (ICSMR) to provide the School with funding to address cash flow issues encountered during the prior fiscal year. No interest accumulated on or was paid on this note.

9. Risk Management:

Property and liability – The School is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the School contracted with the Cincinnati Insurance Company for business personal property, director and officer liability and general liability insurance. Business personal property coverage carries a $250 deductible and has a $50,000 limit. Director and officer liability coverage is set at $1,000,000 per loss with a $1,000 deductible. General liability coverage provides $1,000,000 per occurrence and $2,000,000 in the aggregate with no deductible. The Cincinnati Insurance Company also provides umbrella liability coverage of $1,000,000 per occurrence, as well as, in the aggregate. Business auto coverage is provided by the National Liability & Fire Insurance Company.

There has been no significant reduction in coverage in relation to the prior fiscal year. Settled claims have not exceeded commercial coverage in any of the last three fiscal years.

Employee insurance benefits – As part of the management agreement with the Institute of Charter School Management and Resources, Inc. (see note 12), insurance benefits are paid by the Institute through the monthly management fee established in the agreement.

10. 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 Statue 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 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate, the current rate is 14 percent 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; at June 30, 2005, 10.57 percent of annual covered salary was the portion 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, 2004 and 2003 were $5,801, $7,188 and $3,065, respectively; 100 percent has been contributed for each of the fiscal years.

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 or by calling (614) 227-4090.

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.

For the fiscal year ended June 30, 2005, plan members were required to contribute the statutory maximum of 10.0 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. 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 year ended June 30, 2005, 2004 and 2003 were $76,924, $93,310 and $83,212, respectively; 100 percent has been contributed for all fiscal years.

11. Postemployment Benefits

State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care coverage to retirees who participated in the Defined Benefit or Combined Plans and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B Coverage. Pursuant to the Ohio Revised Code (R.C.), the State Teachers Retirement Board (the Board) has discretionary 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. The R.C. grants authority to STRS Ohio to provide health care coverage to benefit recipients, spouses and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14 percent of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For fiscal years ended June 30, 2005 and June 30, 2004, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was $3.3 billion on June 30, 2005. For the School, this amount equaled $6,689 during the 2005 fiscal year.

For the year ended June 30, 2005, net health care costs paid by STRS Ohio were $254,780,000. There were 115,395 eligible benefit recipients.

For SERS, the Ohio Revised Code gives the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status.

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, the allocation rate is 3.43 percent. 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 has been established at $27,400. 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. For the School, the amount to fund health care benefits, including the surcharge, was $7,401 for fiscal year 2005.

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ending June 30, 2005 were $178,221,113. The target level for the health care fund is 150 percent of the projected claims less premiums contributed for the next fiscal year. As of June 30, 2005, the value of the health care fund was $267.5 million, which is about 168 percent of next year's projected net health care costs of $158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. The number of participants eligible to receive benefits at June 30, 2005 was 58,123.

12. Agreements with Institute of Charter School Management and Resources, Inc.:

The School is a party to a management agreement with the Institute of Charter School Management and Resources, Inc. (ICSMR), which is an education consulting and management company.

The Management Agreement's term coincides with the school's charter agreement and provides that ICSMR will perform functions reasonably required to manage the operation of the School; ensure students receive services which are in accordance with applicable educational standards; make every effort to ensure the School complies with the requirements of any applicable statute, ordinance, law, rule, regulation or order of any governmental or regulatory body having jurisdiction; acquire all necessary licenses and permits; maintain all student and financial records required by federal, state and local laws and regulations, as well as, protecting the confidentiality of those records; act as the School's agent in making deposits and disbursements promptly; provide for all expenses of operating the School, including lease payments for the school building, equipment and operating supplies needed in the operation of the School, from its management fee. Beginning in August 2003, ICSMR became responsible for hiring qualified teachers and all other employees which are subsequently contracted to operate the School. The School reimburses ICSMR every two weeks for the gross payroll expense of the contract employees working at the School, for fiscal year 2005 employee payroll reimbursement totaled $832,466.

ICSMR receives a monthly management fee of 10% of the total operating revenues of the School from all sources excluding extraordinary items. ICSMR charges the School for any expenses it incurs on behalf of the School in order to provide District wide services. These expenses may include but are not limited to District wide management services provided by ICSMR employees in the area of instruction, transportation, financial, and general business management and development, as well as, district wide purchase of textbooks and supplies. During fiscal year 2005, the School paid ICSMR a total of $337,087 for professional, accounting and legal, management and other services

The table below shows the expenses for which the School has reimbursed ICSMR during fiscal year 2005.

Management Company Expense:	
Direct Expenses:	
Contract employees - salaries	$ 832,466
Contract employees - benefits	167,607
Management company fee	136,805
Indirect Expenses:	
Adminstration expense allocation	200,282
Total Expenses	$ 1,337,160

The administration expenses incurred by ICSMR are allocated to the four different Richard Allen Schools under its control. These expenses are allocated to the individual school based on the student enrollment at each school to the total enrollment of all the schools.

13. Restricted Net Assets:

At June 30, 2005 the School reported restricted net assets totaling $13,976. The nature of the net asset restrictions are as follows:

State specific educational program grants	$ 1,940
Federal specific educational program grants	12,036
Total	$ 13,976

14. Contingencies:

A. Grants

Amounts received from grantor agencies are subject to audit and adjustment by the grantor. Any disallowed costs may require refunding to the grantor. Amounts, which may be disallowed, if any, are not presently determinable. However, in the opinion of the School, any such disallowed claims will not have a material adverse effect on the financial position of the School.

B. State funding

The Ohio Department of Education conducts reviews of enrollment data and FTE calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The results of this review amounted to $26,864 of additional foundation funding for fiscal year 2005.

C. 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 on November 18, 2003. On August 24, 2005, the Court of Appeals rendered a decision that Community Schools are part of the State public education 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 argument occurred November 29, 2005. The effect of this suit, if any, on the School is not presently determinable.

15. Operating Leases:

The School leases its facilities from J & A Educational Properties under a lease agreement beginning August 25, 1999 through August 24, 2005. Rent for fiscal year 2005 totaled $63,600. The lease shall automatically renew for an additional five years unless either party gives written notice of termination no later than sixty days prior to the end of the lease. The terms of the lease are not expected to change significantly during fiscal year 2006.

16. Related Parties:

The Board, Chief Executive Officer, and Chief Fiscal Officer of Richard Allen Academy Community School serve in the same capacity for Richard Allen Preparatory, Richard Allen Academy II, and Richard Allen Academy III Community Schools. The Chief Executive Officer and Chief Fiscal Officer are also employees of the Institute of Charter School Management and Resources, the management company for the same.

During fiscal year 2005, the School repaid a $10,000 demand note to ICSMR which provided operating funds to the School in the prior fiscal year. In addition, during the year, the School advanced ICSMR $8,777 for contractual management services to be provided in the future. This amount is reported as an account receivable on the School's statement of net assets

Clark, Schaefer, Hackett & Co.
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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*

Richard Allen Academy Community School
368 South Patterson Blvd.
Dayton, Ohio 45402

We have audited the financial statements of the Richard Allen Academy Community School (the School), as of and for the year ended June 30, 2005, and have issued our report thereon dated July 14, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United Sates 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 School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and responses as items 2005-001 and 2005-002.

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 that would be material in relation to the financial statements being audited may occur and not be detected with in a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School'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*.

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CINCINNATI COLUMBUS DAYTON MIDDLETOWN SPRINGFIELD

We noted certain additional matters that we reported to management of the School in a separate letter dated July 14, 2006.

This report is intended solely for the information of and use by the Board, management of School, and the Auditor of State and is not intended to be and should not be used by anyone other than these specified parties.

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
July 14, 2006

RICHARD ALLEN ACADEMY COMMUNITY SCHOOL

SCHEDULE OF AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005

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

FINDING NUMBER 2005-001

Richard Allen Academy Community School (the School) and the Institute of Charter School Management and Resources (ICSMR) entered into a contract for ICSMR to provide educational services and support; however, that contract is not specific as to the billing rates and the allocation of certain costs. At a minimum, the contract should be expanded to include the establishment of a specific billable rate, a policy for handling compensated absences, a policy for the manner in which the management services and fees will be billed and what point ICSMR will bill the School for the services.

As noted in the prior audit, the current contract between the School and ICSMR does not contain specific wording on how management company expenses will be billed to the School. We did not note any revisions to the management contract during fiscal year 2005 which addressed these issues. Therefore, we recommend the School review the management contract currently in place with ICSMR and make revisions necessary which would allow it to monitor the billings from the management company and determine if they are accurate and applied consistently within the terms of the contract agreement.

FINDING NUMBER 2005-002

At June 30, 2005 the School reported an account receivable in the amount of $8,777 owed by ICSMR for an advance of future contractual services to be provided to the School. There was no formal promissory note issued in conjunction with this transaction nor was it recorded in the minutes of the Board of Trustees meeting where the Board approved this transaction. Public funds should only be utilized to carry out the educational mission of the School and should not be used to provide loans to a private entity. We recommend the Board review and officially approve all financial transactions which are not a part of the normal operation of the School

Managements Response to Comments:

Management intends to discuss these issues with the Finance Committee of the Board of Trustees at the next scheduled meeting. A formal response, including any necessary action steps, will be developed and will be provided to our auditors in conjunction with next year's audit.

RICHARD ALLEN ACADEMY COMMUNITY SCHOOL

SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005

Finding Number	Finding Summary	Fully Corrected?	Explanation of Correction
2004-001	Reimbursement of $232 in expenses without receipts.	YES	Reimbursement was made to the School in October 2004 to address this issue.
2004-002	Management contract between School and ICSMR does not contain specifics regarding the amount being billed and how certain costs are covered.	NO	N/A

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RICHARD ALLEN ACADEMY COMMUNITY SCHOOL

MONTGOMERY 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 2, 2007