RICHARD ALLEN ACADEMY III
COMMUNITY SCHOOL

Basic Financial Statements

June 30, 2005

with

Independent Auditors' Report

Mary Taylor, CPA
Auditor of State

January 9, 2007

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 8, 2007. Thus, I am certifying this audit report for release under the signature of my predecessor.

Mary Taylor

MARY TAYLOR, CPA
Auditor of State

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Auditor of State
Betty Montgomery

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

We have reviewed the *Independent Auditors' Report* of the Richard Allen Academy III, 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 III is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

December 28, 2006

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RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL

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Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS
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Independent Auditors' Report

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

We have audited the accompanying financial statements of the Richard Allen Academy III 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 III 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

2525 N. Limestone Street, Suite 103, Springfield, OH 45503, 937/399-2000, FAX 937/399-5433

CINCINNATI COLUMBUS DAYTON MIDDLETOWN SPRINGFIELD

The discussion and analysis of Richard Allen Academy III 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 decreased by $21,075 or 15.8 percent in fiscal year 2005, compared to fiscal year 2004.

- Total assets decreased $73,558 which represents a 20.7 percent decrease from the prior year due primarily to a significant decrease in the intergovernmental receivables reported at June 30, 2005 as compared to those reported at June 30, 2004. The fiscal year 2004 intergovernmental receivables included a charter school start-up grant, the funding of which was completed during fiscal year 2005.

- The operating loss reported for fiscal year 2005 ($151,384) was $5,471 greater than the operating loss reported for fiscal year 2004.

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.

Net Assets

	2005	2004
Assets:		
Current and other assets	$ 23,694	$ 140,464
Capital assets, net	257,619	214,407
Total Assets	281,313	354,871
Liabilities:		
Current liabilities	62,945	100,571
Non-current liabilities	106,172	121,029
Total Liabilities	169,117	221,600
Net Assets:		
Invested in capital assets	237,634	172,437
Restricted	12,528	185,644
Unrestricted	(137,966)	(224,810)
Total Net Assets	$ 112,196	$ 133,271

Total net assets decreased by $21,075 or 15.8 percent in fiscal year 2005, compared to fiscal year 2004. Total assets decreased by $73,558 from those reported for the previous year. The major decrease in assets between years was seen in the intergovernmental receivables. In fiscal year 2004 the School reported $119,212 of intergovernmental receivables associated with charter school start-up grants as well as unused grant allocations from the Ohio Department of Education (ODE). During fiscal year 2005, the School received the last payments associated with the charter school start-up grants and utilized the majority of the funding available through the ODE grants. Therefore at June 30, 2005 there were not as much grant dollars still due to the School and the intergovernmental receivable was $12,528. Capital assets net of accumulated depreciation increased $43,212 over the amount reported for fiscal year 2004 due to current year additions of $63,503 being offset somewhat by depreciation expense of $20,291.

Liabilities reported for fiscal year 2005 were $52,483 less than those reported for fiscal year 2004. Accounts payable decreased by $28,071 from the amount reported at June 30, 2004 due to timing issues associated with when invoices are presented for payment versus when payment is actually made. Capital lease obligations declined $21,985 from the $24,470 reported for the prior year due to lease payments made during fiscal year 2005 as well as the School making a payment of approximately $16,000 in June 2005 to buyout a copier lease it had entered into during fiscal year 2004.

The increase in net capital assets, net of related debt, was due to the current year increase in net capital asset amount plus the reduction of the debt obligations associated with the capital lease obligations. Net assets restricted for educational grants decreased from $185,644 reported for the previous year to $12,528 reported for fiscal year 2005 due to the School utilizing its grant fund throughout the year as well as the reduction in intergovernmental (grants) receivable reported at June 30, 2005.

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	$ 696,493	$ 443,727
Disadvantaged pupil impact aid	95,535	86,279
Miscellaneous operating revenue	957	3,546
Non-Operating Revenues:		
State and federal grants	115,793	271,251
Other non-operating revenue	16,052	21
Total Revenues	924,830	804,824
Operating Expenses		
Fringe benefits	65,026	39,617
Contractual employees	525,568	339,611
Management company fees	54,165	-
Building rental	96,000	99,867
Other purchased services	128,390	97,061
Materials and supplies	51,494	88,520
Depreciation	20,291	12,039
Other expenses	3,435	2,750
Non-Operating Expenses:		
Interest and fiscal charges	1,536	1,579
Total Expenses	945,905	681,044
Change in Net Assets	(21,075)	123,780
Net Assets, Beginning of Year	133,271	9,491
Net Assets, End of Year	$ 112,196	$ 133,271

Total expenses of the School increased by $264,861 over the expenses reported for fiscal year 2004. The significant increase in expenses is directly related to the 38 percent increase in the number of students attending the School in fiscal year 2005 compared with the prior year. Additional students require additional teaching personnel which accounts for a significant part of the increase in contractual employees and fringe benefits. Cost of living adjustments for wages and overall market increases in the cost of providing health insurance account for the remainder of the increase. During fiscal year 2004, management company fees were waived by the Institute of Charter School Management Resources (ICSMR) to reduce the financial burden on the School during its start-up phase. In fiscal year 2005, ICSMR collected $54,165 from the School in management company fees but this amount is significantly less than what the management contract calls for as ICSMR continued its attempt to assist the School.

The State Foundation and DPIA revenues, calculated by the State of Ohio based on the student enrollment, increased for fiscal year 2005 as the number of students in attendance increased. The revenue from federal and state grants decreased by $155,458 over those of the prior year due to the reasons previously mentioned.

Capital Assets

At June 30, 2005 the capital assets of the School consisted of $221,575 of leasehold improvements and $68,374 of equipment offset by $32,330 in accumulated depreciation resulting in net capital assets of $257,619. During fiscal year 2005, the School capitalized $32,085 of additional leasehold improvements as well as $31,418 of computer equipment purchases. Factoring in the current year depreciation charge of $20,291, capital assets net of accumulated depreciation increased by $43,212 over the amount reported for the previous fiscal year.

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

Debt

At June 30, 2005, the debt obligations of the School consisted of promissory notes payable totaling $105,299 used to provide operating and capital funding for the school in its start-up phase and $3,485 in capital lease obligations used to acquire a telephone system. The School borrowed an additional $3,199 during fiscal year 2005 to meet operating obligations. However, the School did pay-off a capital lease obligation associated with a copier ahead of the established payment schedule.

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 III 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 Academy III Community School, 368 South Patterson Blvd, Dayton, OH 45402.

RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL

Statement of Net Assets

As of June 30, 2005

Assets	
Current assets:	
Cash	$ 10,766
Receivables:	
Intergovernmental	12,528
Prepaid expenses	400
Total current assets	23,694
Noncurrent assets:	
Capital assets (net of accumulated depreciation)	257,619
Total noncurrent assets	257,619
Total assets	281,313
Liabilities	
Current liabilities:	
Accounts payable	28,357
Accrued contract labor	27,712
Intergovernmental payable	4,264
Capital leases payable	2,612
Total current liabilities	62,945
Noncurrent liabilities:	
Capital leases payable, net of current portion	873
Note payable	105,299
Total noncurrent liabilities	106,172
Total liabilities	169,117
Net Assets	
Invested in capital assets, net of related debt	237,634
Restricted for educational grants	12,528
Unrestricted	(137,966)
Total net assets	$ 112,196

See accompanying notes to the basic financial statements

RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL

Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2005

Operating revenues:	
Foundation payments	$ 696,493
Disadvantaged pupil impact aid	95,535
Miscellaneous revenue	957
Total operating revenues	792,985
Operating expenses:	
Fringe benefits	65,026
Contractual employees	525,568
Management company fees	54,165
Building rental	96,000
Other purchased services	128,390
Materials and supplies	51,494
Depreciation	20,291
Other	3,435
Total operating expenses	944,369
Operating loss	(151,384)
Nonoperating revenues/(expenses):	
State and federal grant revenue	115,793
Gifts and donations	16,022
Interest earnings	30
Interest and fiscal charges	(1,536)
Net nonoperating revenues	130,309
Change in net assets	(21,075)
Net assets, beginning of year	133,271
Net assets, end of year	$ 112,196

See accompanying notes to the basic financial statements

RICHARD ALLEN ACADEMY III 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	$	868,712
Cash payments to suppliers for goods and services		(359,628)
Cash payments for contractual employees and benefits		(598,547)
Other operating revenue		957
Net cash used by operating activities		(88,506)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Federal and state grant revenues		145,793
Proceeds from notes		3,199
Gifts and donations		16,022
Net cash provided by noncapital financing activities		165,014
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital acquisitions		(63,503)
Principal paid on capital lease		(21,985)
Interest & other charges paid on capital lease		(1,536)
Net cash used by capital and related financing activities		(87,024)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earnings		30
NET DECREASE IN CASH		(10,486)
CASH, BEGINNING OF YEAR		21,252
CASH, END OF YEAR	$	10,766
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$	(151,384)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation		20,291
Changes in assets and liabilities:		
Decrease in intergovernmental receivable		76,684
Increase in prepaid expenses		(400)
Decrease in accounts payable		(28,071)
Decrease in contract labor payable		(4,639)
Decrease in intergovernmental payable		(987)
Total Adjustments		62,878
Net cash used by operating activities	$	(88,506)

See accompanying notes to the basic financial statements

1. Description of the School and Reporting Entity:

Richard Allen Academy III 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. 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 approved for operation under an initial contract with the Ohio State Board of Education (Sponsor) for a period of five years commencing with fiscal year July 1, 2001 through June 30, 2006 after which, the School must apply for an additional contract with the Sponsor. The School was notified by the Board of Education it would no longer be its Sponsor after the 2004-2005 school year. In June 2005, the Board of Trustees 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 eight-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 for 2005 was 131 pupils; a 38 percent increase over 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 a 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 are defined as 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 for computers and $1,000 for all other items. 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 of is computed using the straight-line method over estimated useful lives of five to seven years for equipment and five to thirty-nine years for leasehold improvements. Improvements to capital assets are depreciated over the remaining useful lives of the related capital 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, donations and contributions, 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 – Payments for the employer's share of the retirement contribution ($3,880), workers' compensation ($41) and Medicaid ($343) 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 less any outstanding capital related debt. 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 statements.

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 $10,766 and the bank balance was $31,575. The entire bank balance was covered by federal depository insurance and therefore not considered to be subject to custodial credit risk.

5. Intergovernmental Receivables:

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 following federal grants in which all grant requirements had been satisfied, Title I ($11,231) and the Summer Intervention Program ($1,297).

6. Capital Leases Payable:

In the prior fiscal year, the School entered into two leases; one for a copier and the other for a telephone system. The terms of the agreements provide options to purchase the equipment. The leases meet 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 through the leases have been capitalized in an amount equal to the present value of the future minimum lease payments of $29,546. At the time of acquisition, a corresponding liability was recorded. Principal payments in fiscal year 2005 associated with these leases totaled $21,985, which included a buy-out payment of $15,445 in principal associated with the copier lease in June 2005.

The following is a schedule of the future minimum lease payments required under the remaining capital lease and the present value of the minimum lease payments as of June 30, 2005.

	Fiscal Year	Lease Payment
	2006	$ 2,943
	2007	891
Total Minimum Lease Payments		3,834
Less: Amount Representing Interest		(349)
Present Value of Minimum Lease Payments		$ 3,485

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	$ 189,490	$ 32,085	$ -	$ 221,575
Equipment	36,956	31,418	-	68,374
Total	226,446	63,503	-	289,949
Less: accumulated depreciation on:				
Leasehold improvements	(6,765)	(14,012)	-	(20,777)
Equipment	(5,274)	(6,280)	-	(11,554)
Total	(12,039)	(20,291)	-	(32,330)
Capital assets, net	$ 214,407	$ 43,212	$ -	$ 257,619

8. Notes Payable:

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

	Balance 7/1/04	Increase	Decrease	Balance 6/30/05
Demand Promissory Note - ICSMR	$ 90,600	$ 3,199	$ -	$ 93,799
Demand Promissory Note – West Park Academy	11,500	-	-	11,500
Total	$ 102,100	$ 3,199	$ -	$ 105,299

The demand promissory note with the Institute of Charter School Management and Resources, Inc. (ICSMR) was issued to provide the School with funding to address cash flow issues arising during initial start-up phase of the School. The note stipulates that no interest will accrue if it is paid in full by June 30, 2009. A portion of the note, or the entire note, may be called at any time, upon written notice to the School, however not prior to June 30, 2006.

The demand promissory note with West Park Academy, Inc. was issued to provide the School with funding for capital acquisitions as well as funding to address cash flow issues arising during the initial start-up phase of the School. The note stipulates that no interest will accrue if it is paid in full by June 30, 2009. A portion of the note, or the entire note, may be called at any time, upon written notice to the School, however not prior to June 30, 2005.

During fiscal year 2005 the School received an additional $3,199 on the note payable to ICSMR to meet operating expenses. No repayment schedule has been established nor is any payment on either of the notes anticipated during fiscal year 2006.

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

There has been no significant reduction in coverage in relation to the prior fiscal year. Settled claims did not exceed commercial coverage in the previous fiscal year (the first fiscal year of existence for the School).

Employee insurance benefits – As part of the management agreement with the Institute of Charter School Management and Resources, Inc. (see note 12), insurance benefits for School employees 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 and 2004 were $2,035 and $2,531, respectively; 100 percent has been contributed for both 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 and 2004 were $48,489 and $31,812, respectively; 100 percent has been contributed for both 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 year 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 $4,139 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 $1,847 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 $525,568.
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, ICSMR did not charge the School for all of its management fees to reduce the financial burden on the School in the early years of operation. Management fees recorded by the School during the fiscal year totaled $54,165.

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	$ 525,568
Contract employees - benefits	65,026
Management company fee	43,170
Indirect Expenses:	
Adminstration expense allocation	10,995
Total Expenses	$ 644,759

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 $12,528. The nature of the net asset restrictions are as follows:

State specific educational program grants	$ 1,298
Federal specific educational program grants	11,230
Total	$ 12,528

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 could result in state funding being adjusted, however it is not anticipated that such an adjustment would be significant.

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 educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral 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 the Butler Metropolitan Housing Company under a lease agreement which began on May 1, 2003 for fiscal year 2003, and is renewable annually on July 1 as long as the School remains chartered by the Ohio Department of Education to operate a chartered public school. If the School loses their Ohio Department of Education charter the lease terminates and the premises must be vacated within 30 days. Rent for fiscal year 2005 totaled $96,000. The terms of the lease are not expected to change significantly for fiscal year 2006.

16. Other Purchased Services:

During the fiscal year ended June 30, 2005, other purchased service expenses for services rendered by various vendors were as follows:

Professional & Technical Services	$ 54,068
Property Services	16,324
Communications	6,743
Utilities	35,181
Pupil Transportation	1,299
Insurance Liability	5,062
Computer/Network Services	4,585
Legal Services	447
Travel, Mileage & Meeting	860
Postage	237
Public Relations/Advertising	3,552
Other	32
	$ 128,390

17. Related Parties:

The Board, Chief Executive Officer, and Chief Fiscal Officer of Richard Allen Academy III Community School serve in the same capacity for Richard Allen Academy, Richard Allen Academy II, and Richard Allen Academy Preparatory 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, ICSMR provided operating funds to the School through a $3,199 increase in the amount due on a demand promissory note. At June 30, 2005 the total amount due to ICSMR was $93,799. In addition, West Park Academy, a private pre-kindergarten school owned and operated by the Chief Executive Officer of ICSMR, provided operating and capital funds to the School through a $11,500 demand promissory note in fiscal year 2004, the total of which was still owed at June 30, 2005. These promissory notes payable, totaling $105,299 are shown on the School's statement of net assets at year end.

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 III Community School
368 South Patterson Blvd.
Dayton, Ohio 45402

We have audited the financial statements of the Richard Allen Academy III 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. A reportable condition is described in the accompanying schedule of findings and responses as item 2005-001.

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 condition described above to be a material weakness.

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*.

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 III 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 III 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. As noted in the prior audit, the current contract between the School and ICSMR does not contain specific wording on how and when management company expenses will be billed to the School. In addition, the contract does not contain any language regarding how management company fees not charged by ICSMR will be handled in the future. There is no written indication or notation in Board minutes if the unbilled management fees should be accrued as a liability by the School or if ICSMR is writing these fees off and never intends to collect them in the future.

We did not note any revisions to the management contract during fiscal year 2005 which addressed these issues. 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, the period of time for which services will be billed, and how unbilled management fees will be handled by both parties. 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.

Managements Response to Comment:

Management intends to discuss this issue 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 III 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	Management contract between School and ICSMR does not contain specifics regarding the amount being billed and how certain costs are covered.	No	N/A

Auditor of State
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RICHARD ALLEN ACADEMY III

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 16, 2007