RICHARD ALLEN ACADEMY II
COMMUNITY SCHOOL

Basic Financial Statements

June 30, 2005

with

Independent Auditors' Report

Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the Richard Allen Academy II 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.

Finding for Recovery Repaid Under Audit:

The audit of the Richard Allen Academy II Community School for the year ended June 30, 2005, noted a $3,720 expenditure for tuition reimbursement for the School's Principal. Per the Principal's contract, tuition is reimbursed at 80%; however, tuition was reimbursed at 100% instead of the contractually agreed upon 80%, resulting in a reimbursement overpayment in the amount of $744.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Michelle Thomas, Principal of Richard Allen Academy II Community School in the amount of $744.

The finding for recovery was repaid while under audit by Michelle Thomas with check No. 1174 dated January 17, 2007.

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 II Community School is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 5, 2007

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RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL

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

Independent Auditors' Report

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

We have audited the accompanying financial statements of the Richard Allen Academy II 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 II 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 II 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 $144,327 in fiscal year 2005, which represents 139.2 percent increase from fiscal year 2004, due to significantly to an increase in intergovernmental receivables associated with foundation adjustment occurring after year-end.

- Total assets increased $61,262 which represents a 12.4 percent increase from the prior year. The increase in the receivable associated with foundation adjustment was offset by reductions in the cash on hand at year end and the carrying value of capital assets due to annual depreciation expense.

- The operating loss reported for fiscal year 2005 ($61,094) was $214,434 less 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 capital asset needs 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	$ 244,673	$ 152,686
Capital assets, net	279,219	309,944
Total Assets	523,892	462,630
Liabilities:		
Current liabilities	116,236	217,408
Non-current liabilities	162,537	144,430
Total Liabilities	278,773	361,838
Net Assets:		
Invested in capital assets	99,073	149,451
Restricted	45,101	46,334
Unrestricted	100,945	(94,993)
Total Net Assets	$ 245,119	$ 100,792

Total net assets of the School increased by $144,327 or 143.2 percent. The increase in total net assets from fiscal year 2004 is due substantially to the recognition of a receivable associated with the Ohio Department of Education's (ODE) review of fiscal year 2005 student enrollment and foundation funding data, which occurred in fiscal year 2006. Based on the review, ODE adjusted the fiscal year 2005 foundation funding by a positive $189,590. These reviews are completed every year by ODE and the results are not known until the subsequent fiscal year.

Total assets of the School increased by $61,262 due to the increase in intergovernmental receivables noted above which was offset by decreases in the cash balance on hand and the carrying value of capital assets. The carrying value of capital assets reported at June 30, 2005 was $30,725 less than the prior year due to the current year depreciation charge exceeding current year additions.

The School's liabilities decreased by $83,065 from those reported at June 30, 2004. Significant decreases were noted for accounts payable, accrued contract labor and intergovernmental payable. At June 30, 2004 the School was completing some renovations and additional summer work near the end of the fiscal year which increased the payable amounts reported. The decrease in accrued contract labor and intergovernmental payable resulted from there only being two pay-periods in the summer of 2005 versus three pay-periods in 2004. Non-current liabilities increased in fiscal year 2005 due to the School acquiring a school bus by utilizing a capital lease arrangement.

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	$ 2,214,968	$ 1,636,554
Disadvantaged pupil impact aid	366,654	289,192
Miscellaneous operating revenue	10,341	3,316
Non-Operating Revenues:		
State and federal grants	210,271	310,610
Total Revenues	2,802,234	2,239,672
Operating Expenses		
Salaries	-	4,079
Fringe benefits	213,779	171,702
Contractual employees	1,230,682	989,218
Management company fees	515,728	421,488
Building rental	132,501	101,015
Other purchased services	243,152	228,268
Materials and supplies	199,544	192,541
Depreciation	115,140	81,724
Other expenses	2,531	14,555
Non-Operating Expenses:		
Loss on disposal of asset	-	2,475
Interest and fiscal charges	4,850	1,858
Total Expenses	2,657,907	2,208,923
Change in Net Assets	144,327	30,749
Net Assets, Beginning of Year	100,792	70,043
Net Assets, End of Year	$ 245,119	$ 100,792

Total revenues of the School increased by $562,562 over the total revenues reported for the prior year. The increases in foundation funding of $578,414 and disadvantaged pupil impact aid (DIPA) of $77,462 offset the $100,339 decrease in federal and state grants. The increases in foundation and DPIA funding can be attributed to a 16 percent increase in the number of students attending the School compared with the prior year as well as an increase in the per pupil amount the State of Ohio utilizes for funding calculations. The fiscal year 2005 audit adjustment also added to the revenue reported for the year.

Total expenses of the School reported for the fiscal year were approximately 20.3 percent higher than those reported for the previous fiscal year. Significant increases in contract labor and related benefits, as well as management fees charged, account for the majority of the increases in expenses. Contract labor and related benefit costs increased by $283,541 over fiscal year 2004 expenses reported. Additional costs are associated with additional personnel needed for the increase in student population, general wage increases as well as significantly higher costs associated with health care insurance.

Additional increases in expenses were noted for building rental, materials and supplies, and depreciation. Building rental expense increased based on the lease payments contained within the original lease agreement. The remainder of the increase can be attributed to having to operate the School and its facilities for the entire calendar year and the increased number of students receiving services during fiscal year 2005.

Capital Assets

At June 30, 2005 the capital assets of the School consisted of $515,509 of leasehold improvements, equipment and vehicles which was offset by $244,290 in accumulated depreciation resulting in net capital assets of $271,219. During the year the School added $84,415 of capital assets including $11,500 of additional leasehold improvements, $18,315 of computer and other equipment, and a school bus with a cost of $54,600. Current year depreciation was $115,140.

See Note 9 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 $124,546. During fiscal year 2005, the School borrowed an additional $4,604 for operating purposes and made principal payments of $8,000 on the notes payable. Capital leases reported at year end include lease obligations for the purchase of equipment and vehicles. Additionally, the School paid off the balance of a lease obligation related to copier equipment.

See Notes 6 and 7 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 II 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 II Community School, 368 South Patterson Blvd, Dayton, OH 45402.

RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL

Statement of Net Assets

As of June 30, 2005

Assets	
Current assets:	
Cash	$ 1,626
Receivables:	
Intergovernmental	234,691
Notes	7,381
Prepaid expenses	975
Total current assets	244,673
Noncurrent assets:	
Security deposits	8,000
Capital assets (net of accumulated depreciation)	271,219
Total noncurrent assets	279,219
Total assets	523,892
Liabilities	
Current liabilities:	
Accounts payable	21,507
Accrued contract labor	67,447
Intergovernmental payable	10,372
Compensated absences payable	2,697
Capital leases payable	14,213
Total current liabilities	116,236
Noncurrent liabilities:	
Capital leases payable, net of current portion	37,992
Note payable	124,545
Total noncurrent liabilities	162,537
Total liabilities	278,773
Net Assets	
Invested in capital assets, net of related debt	99,073
Restricted for educational grants	45,101
Unrestricted	100,945
Total net assets	$ 245,119

See accompanying notes to the basic financial statements

RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL

Statement of Revenues, Expenses and Changes in Net Assets

For the Year Ended June 30, 2005

Operating revenues:	
Foundation payments	$ 2,214,968
Disadvantaged pupil impact aid	366,654
Miscellaneous revenue	10,341
Total operating revenues	2,591,963
Operating expenses:	
Fringe benefits	213,779
Contractual employees	1,230,682
Management company fees	515,728
Building rental	132,501
Other purchased services	243,152
Materials and supplies	199,544
Depreciation	115,140
Other	2,531
Total operating expenses	2,653,057
Operating loss	(61,094)
Nonoperating revenues/(expenses):	
State and federal grant revenue	210,271
Interest and fiscal charges	(4,850)
Net nonoperating revenues	205,421
Change in net assets	144,327
Net assets, beginning of year	100,792
Net assets, end of year	$ 245,119

See accompanying notes to the basic financial statements

RICHARD ALLEN ACADEMY II 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	$ 2,423,731
Cash payments to suppliers for goods and services	(1,139,158)
Cash payments for contractual employees and benefits	(1,473,637)
Other operating revenue	10,341
Net cash used by operating activities	(178,723)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Federal and state grant revenues	194,608
Proceeds from notes	4,604
Principal paid on note payable	(8,000)
Net cash provided by noncapital financing activities	191,212
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital acquisitions	(29,815)
Principal paid on capital lease	(26,947)
Interest & other charges paid on capital lease	(4,850)
Net cash used by capital and related financing activities	(61,612)
NET DECREASE IN CASH	(49,123)
CASH, BEGINNING OF YEAR	50,749
CASH, END OF YEAR	$ 1,626
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	$ (61,094)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation	115,140
Changes in assets and liabilities:	
Increase in intergovernmental receivable	(124,472)
Increase in prepaid expenses	(975)
Decrease in accounts payable	(56,686)
Decrease in contract labor payable	(24,573)
Decrease in intergovernmental payable	(26,563)
Increase in compensated absences payable	500
Total Adjustments	(117,629)
Net cash used by operating activities	$ (178,723)
Non-Cash Item:	
Capital assets acquired under capital lease	$ 54,600

See accompanying notes to the basic financial statements

1. Description of the School and Reporting Entity:

Richard Allen Academy II 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, during the current fiscal year, all employees of the School became ICSMR employee's and were 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, 2002 through June 30, 2007. 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 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 has one instructional/support facility staffed by one principal, twenty-eight full-time and part-time certified teaching personnel and seven non-certified support personnel who provide services to an enrollment of 364 students.

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 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 in 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 equipment and vehicles is computed using the straight-line method over estimated useful lives of five to fifteen years. Improvements to capital assets are depreciated over the remaining useful lives of the related capital assets. Leasehold improvements are depreciated over the life of the lease agreement of five years.

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 payable – 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 ($9,443), workers' compensation ($98) and Medicaid ($831) 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 $1,626 and the bank balance was $32,980. 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 ($189,590) and the following state and federal grants in which all grant requirements had been satisfied, Title I ($44,392), and Student Intervention Program ($709).

B. Note

During the prior fiscal year, the School advanced monies to ICSMR on management fees and payroll obligations. As these obligations were not due as of the end of the year, ICSMR issued the School a demand promissory note in the amount of $7,381. The note provides that no interest will accrue if it is settled in full by June 30, 2005. In addition, the School may demand all or any portion of the outstanding principal amount of the Note at any time, except that principal payment shall not be demanded in any event prior to June 30, 2005. No payments were paid during fiscal year 2005.

6. Capital Leases Payable:

During the fiscal year the School entered into a lease agreement to acquire a school bus. The terms of the agreements provides an option to purchase the vehicle. 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. In addition to this lease, the School has acquired other equipment through capital leases in prior years. The capital assets acquired by leases have been capitalized in the amount of $88,204 ($33,604 of equipment and $54,600 of vehicles), which is equal to the present value of the minimum lease payments at the time of acquisition. At the time of acquisition, a corresponding liability was recorded. Principal payments in fiscal year 2005 totaled $26,947 which included $15,644 associated with the early settlement of a capital lease associated with copier equipment.

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

	Fiscal Year	Lease Payment
	2006	$ 16,713
	2007	13,701
	2008	12,196
	2009	12,196
	2010	3,049
Total Minimum Lease Payments		57,855
Less: Amount Representing Interest		(5,650)
Present Value of Minimum Lease Payments		$ 52,205

7. Note 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 APR: LIBOR plus 2.75%	$ 127,941	4,604	$ 8,000	$ 124,545

The demand promissory note was issued to the Institute of Charter School Management and Resources, Inc. (ICSMR) in the prior fiscal year to provide the School with funding during the start-up phase of the School. 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 made an $8,000 payment against the note. Also during the year, ICSMR provided additional operating funds to the School to help meet current obligations which was added to the principal of the note.

8. 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. Building coverage has a $3.6 million dollar limit and business personal property coverage carries $100,000 limit, both have a $500 deductible and 80 percent coinsurance clause. Director and officer liability coverage is set at $1,000,000 per loss with a $5,000 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 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 for School employees are paid by the Institute through the monthly management fee established in the agreement.

9. 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	$ 294,570	$ 11,500	$ -	$ 306,070
Equipment	136,524	18,315	-	154,839
Vehicles	-	54,600	-	54,600
Total	431,094	84,415	-	515,509
Less: accumulated depreciation on:				
Leasehold improvements	(96,102)	(62,522)	-	(158,624)
Equipment	(33,048)	(41,698)	-	(74,746)
Vehicles	-	(10,920)	-	(10,920)
Total	(129,150)	(115,140)	-	(244,290)
Net capital assets	$ 301,944	$ (30,725)	$ -	$ 271,219

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 $21,766 and $11,959, 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, 2004 and 2003 were $109,722, $103,151 and $67,184, respectively; 100 percent has been contributed for all fiscal years.

11. Post employment 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 $9,410 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 $8,041 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 $1,230,682.

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 $515,728 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	$ 1,230,682
Contract employees - benefits	213,779
Management company fee	232,558
Indirect Expenses:	
Adminstration expense allocation	283,170
Total Expenses	$ 1,960,189

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 $45,101. The nature of the net asset restrictions are as follows:

Summer Intervention	709
Title I educational program grants	44,392
Total	$ 45,101

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 adjustment figure for the School amounted $189,590 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 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 St. Joseph Catholic Church under a three-year lease agreement beginning July 1, 2002 through June 30, 2005. The monthly lease payments during fiscal year 2005 were $11,042. Total rental payments for the school for fiscal year 2005 were $132,501. The parties entered into a renewal of the original agreement on July 1, 2005 with no scheduled increase in rent payments.

16. Related Parties:

The Board, Chief Executive Officer, and Chief Fiscal Officer of Richard Allen II Community School serve in the same capacity for Richard Allen Academy Community School, Richard Allen Academy Preparatory Community School, 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 the prior fiscal year, the School provided advances on management fees and payroll obligations to ICSMR for which ICSMR issued a demand note to the School (see Note 5). In addition, during the fiscal year, the School repaid ICSMR $8,000 on a demand note issued in the prior fiscal year and obtained an additional $4,605; the remainder owed ICSMR ($124,545) is shown as a note payable (See note 7).

17. 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 and technical services	$	84,020
Computer and network services		12,456
Property services		43,253
Meetings and travel		753
Communications		17,406
Public relations, advertising and postage		3,674
Utilities		53,357
Pupil transportation		1,008
Property and liability insurance		14,996
Student Intervention		6,925
Uniforms/School net PD		5,304
	$	243,152

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

We have audited the financial statements of the Richard Allen Academy II 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 2005-002 and 2005-003.

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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings and responses as item 2005-001.

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

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 II 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

The Management Agreement between Richard Allen Academy II Community School (the School) and the Institute of Charter School Management Resources, Inc. (ICSMR) Sections 2.5 thru 2.7, dated May 18, 2000 and amended July 1, 2003, requires ICSMR to maintain School records, deposit and disburse funds, and pay the expenses required for the operation of the School. ICSMR has hired a person to manage the financial records of the School as well as the other related schools managed by ICSMR.

A check was written on July 13, 2004 totaling $3,720 on an invoice for tuition reimbursement paid on behalf of the School's Principal. The Principal's employment contract provides that tuition reimbursement will be at the rate of eighty percent. The check total agreed to the total amount charged for tuition and there was not indication of the twenty percent being repaid by the Principal. The payment of the entire tuition charge does not agree with the stated terms of the Principal's employment contract. Therefore, the School should request the Principal repay twenty percent of the tuition charge, or $744.

FINDING NUMBER 2005-002

Richard Allen Academy II 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 2005-003

At June 30, 2005 the School reported a note receivable in the amount of $7,381 owed by ICSMR for an advance of future contractual services to be provided to the School. On June 30, 2004 ICSMR issued a promissory note to the School in the amount of $7,381 for the same purpose. The June 30, 2004 note did not indicate the Board formally approved that 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 II 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	Charging $1,800 of advertising costs to the School for which it was not responsible for.	YES	Reimbursement was made to the School in February 2005 to address this issue.
2004-002	Payment of employee's tuition invoices at 100% instead of 80% as called for in the employee's employment contract resulting in the School paying $372 of costs it was not obligated to pay.	NO	While a reimbursement was made in February 2005 to address this particular tuition payment, another payment was noted for fiscal year 2005 on which no reimbursement was made.
2004-003	Errors in ICSMR's billings to the School resulted in an overpayment of $11,402 by the School to ICSMR.	YES	Reimbursement was made to the School in February 2005 to address this issue.
2004-004	Paid $413 of BWC premiums which were related to another entity.	YES	Reimbursement was made to the School in February 2005 to address this issue.
2004-005	School provided an advance to ICSMR for future contractual services to be provided.	NO	N/A
2004-006	Management contract between School and ICSMR does not contain specifics regarding the amount being billed and how certain costs are covered.	NO	N/A
2004-007	No contract in place to address charging of costs related to transportation services provided by a bus in the name of a related school managed by ICSMR	YES	During FY05 transportation costs were paid based on invoices for those services. No additional costs associated with transportation were noted.

RICHARD ALLEN ACADEMY II 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
FEBRUARY 15, 2007

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