RICHARD ALLEN PREPARATORY COMMUNITY SCHOOL

Basic Financial Statements

June 30, 2006

with

Independent Auditors' Report

Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the Richard Allen Preparatory Community School, Montgomery County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2005 through June 30, 2006. 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

Management Company Invoices:

Richard Allen Preparatory (the School) is invoiced monthly by the Institute of Charter School Management Resources (ICSMR), the management company, for administrative services, contract labor and benefits, and management fees. The following issues were noted related to the School: the state foundation revenue base, on which the ten percent management fee is calculated, was calculated inconsistently from month to month, health benefit costs were not allocated appropriately, and on some occasions underlying invoices could not be agreed to the amounts charged. While most of the issues involved insignificant dollar amounts, the amount the School was over allocated for health insurance costs in October 2005 and the miscalculation of management fees during the year resulted in the School paying the management company $828.54 more than it should have; $548.54 for the health insurance and $280 for the management fees.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.38, a Finding for Recovery is issued against ICSMR, in the amount of $828.54, in favor of Richard Allen Preparatory.

The Institute of Charter School Management Resources reimbursed Richard Allen Preparatory $548.54 on check number 6224, dated 10/29/07, and $280 on check number 6225, dated 10/26/07.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 28, 2008

RICHARD ALLEN PREPARATORY COMMUNITY SCHOOL

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

Independent Auditors' Report

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

We have audited the accompanying financial statements of the Richard Allen Preparatory Community School (the School) as of and for the year ended June 30, 2006, 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 Preparatory Community School as of June 30, 2006, 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 November 16, 2007, 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
November 16, 2007

The discussion and analysis of Richard Allen Preparatory Community School's (the School) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2006. 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 2006 are as follows:

- Total net assets decreased $225,090 in fiscal year 2006 which resulted in an accumulated deficit of $178,930 at June 30, 2006.
- Total assets decreased $80,861 which represents a 67.3 percent decrease from the prior year due to decreases in cash, notes receivable and capital assets reported at year end. Total liabilities increased $144,229 the majority of which is reported as intergovernmental and accounts payable. The increase in intergovernmental payables is due to amounts owed at the end of fiscal year 2006 related to funding adjustments for fiscal year 2005.
- The $360,020 operating loss reported for fiscal year 2006 was $172,349 greater than the operating loss reported for fiscal year 2005.

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 2006 compared with fiscal year 2005.

TABLE 1
NET ASSETS

	2006	Restated 2005
Assets:		
Current and other assets	$ 16,713	$ 79,402
Capital assets, net	22,516	40,688
Total Assets	39,229	120,090
Liabilities:		
Current liabilities	218,159	73,930
Total Liabilities	218,159	73,930
Net Assets:		
Invested in capital assets	22,516	40,688
Restricted	-	24,161
Unrestricted	(201,446)	(18,689)
Total Net Assets	$ (178,930)	$ 46,160

As noted in Table 1 above, total net assets of the School decreased by $225,090 during fiscal year 2006 resulting in an ending net deficit of $178,930 at June 30, 2006.

Total assets of the School decreased by $80,861 or 67.3 percent. Cash on hand decreased as expenditures exceeded revenues for the year. Intergovernmental receivables decreased at June 30, 2006 compared with the restated amount for one year prior due to the School utilizing the vast majority of grant funding available to it during the fiscal year compared with the prior year. The notes receivable from the management company reported at the end of the prior year was settled during the current fiscal year. Finally, capital assets decreased by $18,172 due to the disposal of capital assets as well as depreciation expense exceeding capital outlay for the year.

The liabilities reported by the School at June 30, 2006 were $144,229 higher than the restated amounts of year prior. Accounts payable increased by $54,243 from the prior year as payment of vendors invoices were delayed as the School's financial condition continued to deteriorate during the fiscal year. Intergovernmental payable liability increased by $95,514 over the prior year as the final enrollment review for fiscal year 2005 indicated the School owed back $1,119 of foundation funds for fiscal year 2005 instead of being owed $96,825 which the previous enrollment review calculated. This final review resulted in a $97,944 intergovernmental payable being recorded at June 30, 2006 for fiscal year 2005 foundation revenue which will be repaid through fiscal year 2007's foundation settlements. Also, as a result of difference between the initial review and final review amounts, the net assets reported for fiscal year 2005 required an adjustment from $144,104 to $46,160.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2006, as well as revenue and expense comparisons to fiscal year 2005.

TABLE 2
CHANGE IN NET ASSETS

	2006	Restated 2005
Operating Revenues:		
Foundation payments	$ 1,007,262	$ 1,206,353
Parity/DPIA Aid	76,543	271,213
Miscellaneous revenue	1,029	1,311
Non-Operating Revenues:		
State and federal grants	145,366	178,161
Other non-operating revenue	64	15,653
Total Revenues	1,230,264	1,672,691
Operating Expenses:		
Contractual employees	904,495	1,033,683
Management company fees	180,360	312,848
Building rental	63,600	63,600
Other purchased services	232,493	126,849
Materials and supplies	47,916	106,157
Depreciation	11,797	18,385
Other expenses	4,193	5,026
Non-Operating Expenses:		
Interest and fiscal charges	-	5,221
Loss on disposal of capital assets	10,500	-
Total Expenses	1,455,354	1,671,769
Change in Net Assets	(225,090)	922
Net Assets, Beginning of Year	46,160	45,238
Net Assets, End of Year	$ (178,930)	$ 46,160

The $393,761 decrease in foundation and poverty based state revenue reported for fiscal year 2006 resulted from the decrease in student enrollment as well as the change in the manner in which schools were allocated poverty based aid during fiscal year 2006. Beginning with fiscal year 2006, the kindergarten classes previous held at the School were consolidated at Richard Allen Academy II Community School. Therefore the School did not receive the funding it previously received for those kindergarten students. It addition, student enrollment in the other classes decreased by 23 students. Revenue received from federal and state grants also decreased by $32,795 or 18.4 percent. The School did not receive as much grant revenue as it did in the prior years as funding available to the School through the Ohio Department of Education decreased. Total revenues of the School reported for fiscal year 2006 decreased by $442,427 from those reported for the prior year, or a 26.5 percent decrease.

Total expenses of the School decreased by $216,415 compared with those reported for the prior year. All category of expenses decreased with the exception of purchased services which increased by $105,644 as the School utilized additional outside resources due to the reduction of School staff. The reduction in contractual labor was the result of the consolidation of the kindergarten classes at another school. The decrease in management company fees is directly related to the reduction in state foundation revenue received in fiscal year 2006. Management tried to control other expense categories due to the reduction in revenues received for the year. Despite the reduction in expenses for fiscal year 2006, expenses still exceeded revenues by $225,090 for fiscal year 2006.

Capital Assets

At June 30, 2006 capital assets of the School consisted of $79,235 of equipment which was offset by $56,719 in accumulated depreciation resulting in net capital assets of $22,516. During the year the School added $4,125 of equipment while reporting a $10,500 loss on the disposal of capital assets during the year. Current year depreciation expense was $11,797.

Please see the notes to the basic financial statements for more detailed information on the School's capital assets.

Debt

At June 30, 2006 the School did not have any outstanding debt obligations outside the amounts recorded as current liabilities.

Contacting the School

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

RICHARD ALLEN PREPARATORY COMMUNITY SCHOOL

Statement of Net Assets

As of June 30, 2006

Assets	
Current assets:	
Cash and cash equivalents	$ 5,583
Receivables:	
Accounts	829
Intergovernmental	10,301
Total current assets	16,713
Noncurrent assets:	
Capital assets (net of accumulated depreciation)	22,516
Total noncurrent assets	22,516
Total assets	39,229
Liabilities	
Current liabilities:	
Accounts payable	64,662
Accrued contract labor	46,346
Intergovernmental payable	105,167
Compensated absences payable	1,984
Total liabilities	218,159
Net Assets	
Invested in capital assets	22,516
Unrestricted	(201,446)
Total Net Assets	$ (178,930)

See accompanying notes to the basic financial statements.

RICHARD ALLEN PREPARATORY COMMUNITY SCHOOL

Statement of Revenues, Expenses and Changes in Net Assets

For the Fiscal Year Ended June 30, 2006

Operating revenues	
Foundation payments	$ 1,007,262
Parity Aid	76,543
Miscellaneous revenue	1,029
Total operating revenues	1,084,834
Operating expenses	
Contractual employees	904,495
Management company fees	180,360
Building rental	63,600
Other purchased services	232,493
Materials and supplies	47,916
Depreciation	11,797
Other	4,193
Total operating expenses	1,444,854
Operating loss	(360,020)
Nonoperating revenues/(expenses)	
State and federal grant revenue	145,366
Interest earnings	64
Loss on disposal of capital assets	(10,500)
Total nonoperating revenues/(expenses)	134,930
Change in net assets	(225,090)
Net assets, beginning of year - Restated	46,160
Net assets, end of year	$ (178,930)

See accompanying notes to the basic financial statements.

RICHARD ALLEN PREPARATORY COMMUNITY SCHOOL

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2006

INCREASE (DECREASE) IN CASH		
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash from State of Ohio	$	1,171,934
Cash payments to suppliers for goods and services		(448,760)
Cash payments for contractual employees and benefits		(911,883)
Other operating revenue		1,029
Net cash used by operating activities		(187,680)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Federal and state grant revenues		167,921
Net cash provided by noncapital financing activities		167,921
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital acquisitions		(4,125)
Net cash used by capital and related financing activities		(4,125)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earnings		64
Net cash provided by investing activities		64
Net increase in cash		(23,820)
Cash balance, beginning of year		29,403
Cash balance, end of year	$	5,583

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$	(360,020)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation		11,797
Changes in assets and liabilities:		
Increase in intergovernmental receivable		(8,696)
Increase in accounts receivable		(829)
Decrease in notes receivable		24,864
Decrease in prepaid expenses		975
Increase in accounts payable		54,243
Decrease in contract wages payable		(7,512)
Increase in intergovernmental payable		95,514
Increase in compensated absences payable		1,984
Total Adjustments		172,340
Net cash used by operating activities	$	(187,680)

See accompanying notes to the basic financial statements.

1. Description of the School and Reporting Entity:

Richard Allen Preparatory Community School (the School) is a state nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service. The School, which is part of the State's education program, is independent of any school district. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School.

The School contracts with the Institute of Charter School Management and Resources, Inc. (ICSMR) for a variety of services including management consulting, Ohio Department of Education consulting, Education Management Information System (EMIS) monitoring and consulting, technology and operational support, teacher training, supervision of certified and non-certified personnel and assistance in grant applications. In addition all employees of the School are ICSMR employee's and are subsequently contracted to the School. The School is responsible for reimbursing ICSMR for the payroll and benefits of the employees assigned to the School. (See note 10 for additional detail on the contractual relationship between ICSMR and the School).

The School was originally approved for operation under contract with the Ohio State Board of Education (Sponsor) for a period of five years commencing with fiscal year July 1, 2000 through June 30, 2005. In June 2005, the School entered into a one year agreement with St. Aloysius Orphanage in Cincinnati Ohio to become the School's Sponsor. Effective April 1, 2006 the Board, with the approval of St. Aloysius, agreed to assign the Sponsor Contract to KIDS County of Dayton, Inc. for the remainder of the 2005-2006 school year as well as the 2006-2007 school year.

The School operates under a self-appointing ten-member Board of Trustees (the Board). The School's Code of Regulations specifies that vacancies that arise on the Board be filled by the appointment of a successor trustee by a majority vote of the then existing trustees. The Board is responsible for carrying out the provisions of the contract with the Sponsor which includes but is not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The School's enrollment for 2006 was 162 pupils; a decrease of 23 students over the previous year.

2. Summary of Significant Accounting Policies:

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

A. Basis of presentation

Enterprise accounting is used to account for operations that are financed and operated in manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

B. Measurement focus and basis of accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The difference between total assets and liabilities is defined as net assets. Net assets are segregated into three categories: 1) net assets invested in capital assets, 2) restricted net assets and 3) unrestricted net assets. The statement of revenues, expenses and changes in net assets present increases (i.e. revenues) and decreases (i.e. expenses) in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary process

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Section 5705, unless specifically provided in the Schools contract with its Sponsor. The contract between the School and its Sponsor does prescribe an annual budget requirement in addition to preparing a five-year forecast which is to be updated on an annual basis.

D. Cash

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

E. Estimates

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

F. Capital assets and depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market value as of the date received. The School maintains a capitalization threshold of $500. The School does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are expensed.

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

G. Intergovernmental revenues

The School currently participates in the State Foundation Program and the State Parity Aid Program, which is poverty aid funding. 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, 2006, including:

Accrued Contract Labor – salary reimbursements to ICSMR made after year-end which were for services employees rendered in fiscal year 2006. 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, 2006 for all salary payments made to teaching personnel during the month of July 2006.

Intergovernmental payable – amounts owed to other governmental entities, including payment for the employer's share of the retirement contribution and other related payroll taxes, associated with services rendered during fiscal year 2006, 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. The School has not filed the required 990 informational tax return for fiscal year 2006 which could result in penalties and interest being assessed. As of the date of these statements, no such penalties or interest has been assessed and therefore no provision for such has been included in the statements.

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The School applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

3. Prior Period Adjustment:

In the prior year, the School booked a receivable of $96,825 based on an enrollment review performed by ODE after year-end which concluded the School was owed this amount for additional foundation for fiscal year 2005. The School received this funding adjustment through its foundation settlements during fiscal year 2006. In October 2006, subsequent to the date the prior year's statements were completed, ODE performed an additional enrollment review for fiscal year 2005 which indicated the School was actually overpaid $97,944 in foundation revenues for fiscal year 2005 including the additional payment of $96,825 received during the current year. ODE will be deducting the $97,944 from the School's foundation settlements received during fiscal year 2007. As a result, ending net asset balance for fiscal year 2005 was overstated by $97,944. Therefore, the beginning net assets of the School for fiscal year 2006 have been restated from the $144,104 previously reported to $46,160.

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 $5,583 and the bank balance was $9,575. The entire bank balance was covered by federal depository insurance and therefore not considered to be subject to custodial credit risk.

5. 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. The intergovernmental receivable reported on the Statement of Net Assets represents grant funding and additional foundation revenues owed to the School for fiscal year 2006.

6. Capital Assets:

A summary of the School's capital assets at June 30, 2006, follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets being depreciated:				
Equipment	$ 97,610	$ 4,125	$ (22,500)	$ 79,235
Less: accumulated depreciation on:				
Equipment	(56,922)	(11,797)	12,000	(56,719)
Total capital assets, net	$ 40,688	$ (7,672)	$ (10,500)	$ 22,516

7. 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 2006, the School contracted with the Cincinnati Insurance Company for business personal property, director and officer liability and general liability insurance. Business personal property coverage carries a $250 deductible and has a $50,000 limit. Director and officer liability coverage is set at $1,000,000 per loss with a $1,000 deductible. General liability coverage provides $1,000,000 per occurrence and $2,000,000 in the aggregate with no deductible. The Cincinnati Insurance Company also provides umbrella liability coverage of $1,000,000 per occurrence, as well as, in the aggregate. Business auto coverage is provided by the National Liability & Fire Insurance Company.

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

Employee insurance benefits – As part of the management agreement with the Institute of Charter School Management and Resources, Inc. (see note 10), insurance benefits are paid by the Institute and reimbursed monthly by the School.

8. 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, 2006, 10.58 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 years ended June 30, 2006, 2005 and 2004 were $9,069, $21,243 and $10,284, respectively; 100 percent has been contributed for each of the fiscal years.

B. State Teachers Retirement System

The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2006, 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 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations for the fiscal years ended June 30, 2006, 2005 and 2004 were $89,421, $81,187 and $96,330, respectively; 100 percent has been contributed for all fiscal years.

9. Post-Employment Benefits

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS) and to retired non-certified employees and their dependents through the School Employee Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both Systems are funded on a pay-as-you-go basis.

STRS retirees who participate in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employee contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006 the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund; for the School this amounted to $6,879 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006 the balance in the Fund was $3.5 billion. For the fiscal year ended June 30, 2006 net health care costs paid by STRS were $282.7 million and STRS had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility and retirement status.

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, 2006, the allocation rate is 3.42 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 2006, the minimum pay has been established at $35,800. 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 $2,931 for fiscal year 2006.

Net health care cost for the year ending June 30, 2006 was $158.8 million. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2006 the value of the health care fund was $295.6 million, which is about 221 percent of next year's projected net health care costs. On the basis of accrual projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150 of estimated annual net claims costs. The number of participants eligible to receive benefits at June 30, 2006 was 59,492.

10. 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. ICSMR is 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 and monthly for the related cost of the benefits offered to these employees. For fiscal year 2006, the expense related to contractual employees totaled $904,495; $748,082 for payroll and $156,413 for benefits, respectively.

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 2006, the School paid ICSMR a total of $180,360 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 2006.

Management Company Expense:	
Direct Expenses:	
Contract employees - salaries	$ 748,082
Contract employees - benefits	156,413
Management company fee	117,393
Indirect Expenses:	
Adminstration expense allocation	62,967
Total Expenses	$ 1,084,855

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.

11. 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. As a result of this review for fiscal year 2006, the School is entitled to receive an additional $8,696 of foundation revenue associated with the fiscal year. This amount is reported as a component of intergovernmental receivables reported on the Statement of Net Assets. As previously mention, a subsequent review for fiscal year 2005 revealed the School had been over-funded for that year and it owed $97,944 back to ODE. This amount is reported as a component of intergovernmental payable reported on the Statement of Net Assets.

C. Litigation

A suit was filed in the U.S. District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The case is still pending and the effect of this suit, if any, on the School is not presently determinable.

In addition, on January 9, 2008 a vendor initiated a lawsuit in Common Plea Court seeking payment for goods it contends were provided to the School and payment was never made. The total of the vendor invoices which are in dispute is $30,583 for all four of the related Richard Allen Schools. While the District's legal counsel predicts the case will be settled in short order, the amount the School will have to pay the vendor is not currently determinable. There has been no provision made in the financial statements for the settlement of this case.

12. Other Purchased Services:

During the fiscal year ended June 30, 2006 other purchased services expenses for services rendered by various vendors were as follows:

Professional and technical services	$ 161,259
Property services	38,385
Travel and meetings	643
Communications	27,299
Contracted trades or labor	1,126
Pupil transportation services	3,781
	$ 232,493

13. Operating Leases:

The School leases its facilities from J & A Educational Properties under a lease agreement which began on August 30, 2000 for fiscal year 2001 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. Rental payments for fiscal year 2006 totaled $63,600. The lease was renewed on July 1, 2006 for fiscal year 2007 and terms of the lease did not change.

14. Management's Plan Regarding Accumulated Deficit:

As shown in the accompanying financial statements, the School had an accumulated deficit of $178,930 as of June 30, 2006, which includes $105,167 in intergovernmental payable and $64,662 in accounts payable.

To address the financial condition of the School, the Board of Director's approved a reduction in the number of school personnel as well as in all other categories of the School's operating budget for fiscal year 2008. Additional efforts are also being directed towards increasing the student enrollment at the School which would provide additional State funding.

15. Related Parties:

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

16. Subsequent Events:

A. Management Contract

Effective September 1, 2006 the School entered into a new management agreement with the Institute of Management and Resources, Inc. (IMR), an Ohio nonprofit corporation. Under this new management agreement The Board of Directors retains ultimate control over the assets of the Academy, authority and responsibility regarding the powers, duties and responsibilities vested in the School by the State of Ohio and retain all other corporate powers and authority not specifically delegated to IMR pursuant to the management agreement.

The management agreement grants ICM the general authority to supervise and manage the day-to-day operations of the school in accordance with State law and School By-laws and policies. The specific functions granted to IMR under the agreement are the same as those granted to ICSMR under the previous management agreement described in Note 10 above.

B. Related Party Transaction

On February 26, 2007 the School received an operating loan from ICM in the amount of $14,000 to provide operating funding. The terms of the loan contain no provision for interest and the loan is due on December 31, 2007 unless renewed.

Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
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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 Preparatory Community School
368 South Patterson Blvd.
Dayton, Ohio 45402

We have audited the financial statements of the Richard Allen Preparatory Community School (the School), as of and for the year ended June 30, 2006, and have issued our report thereon dated November 16, 2007. 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 2006-003, 2006-004 and 2006-005.

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 as items 2006-003 and 2006-005 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 instances of non-compliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings and responses as items 2006-001 and 2006-002.

We noted certain additional matters that we reported to management of the School in a separate letter dated November 16, 2007.

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
November 16, 2007

RICHARD ALLEN PREPARATORY COMMUNITY SCHOOL

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2006

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

FINDING NUMBER 2006-001

The School was determined to be a tax-exempt organization under section 501(a) of the Internal Revenue Code as an organization described in section 501(c)(3). As such, the School is required to file an annual Form 990 with the IRS. For fiscal year 2006, a Form 990 has not been filed to date due to the lack of financial statements needed to complete that Form. Failure to file required IRS forms could result in the School's tax exempt status being revoked as well as subjecting the School to penalties and interest for not filing. As State law requires community schools to be tax exempt organizations, if the School's tax exempt status is revoked could ultimately result in having its State Charter being revoked as well.

The School should complete and file the 2006 Form 990 as soon as possible. In the future, the School should ensure all information and financial statements are available in a timely manner to permit the required tax forms to be completed and filed within the required time period.

Managements Response to Comments:

The required tax returns will be filed shortly for fiscal year 2006. Management has acquired additional outside assistance to complete the financial statements in a timely manner for future fiscal years which should permit returns to be file within the required time period.

FINDING NUMBER 2006-002

Ohio Rev. Code Section 117.38 requires community schools and other governmental entities to file GAAP basis financial statements with the Auditor of State's Office within 150 days of the end of the fiscal year. The School did not file the fiscal year 2006 report by the November 30, 2006 deadline set by the Ohio Revised Code. Furthermore, information necessary to complete the financial statements was not provided until July 2007 which delayed the audit process for fiscal year 2006.

The School should implement procedures to ensure the reporting deadlines contained in the Ohio Revised Code are met for future reporting periods. Effective for fiscal year 2007, new legislation was enacted which enables the State to declare the School "unauditable" if a complete report is not filed within the prescribed timeframe. One provision of being declared "unauditable" is that the State could cease payment of State Foundation funding to the School. For fiscal year 2006, State Foundation funding represented 88 percent of the total revenues reported by the School.

Managements Response to Comments:

Changes in the financial management team of the School contributed to the delay in completing the fiscal year 2006 financial statements. Management has acquired additional outside assistance to complete the financial statements in a timely manner for future fiscal years.

RICHARD ALLEN PREPARATORY COMMUNITY SCHOOL

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2006
(Continued)

FINDING NUMBER 2006-003

The School is a party to a management contract with Institute of Charter School Management and Resources (ICSMR) to provide educational services and management support; however, that contract is not specific as to the administrative billing rates and 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 management services and fees will be billed and at what point ICSMR will bill the School for these services.

Furthermore, the School is invoiced monthly by ICSMR for administrative services, contract labor and benefits, and management fees. During our review of the management invoices, the following issues were noted related to the School: the state foundation revenue base, on which the ten percent management fee is calculated, was calculated inconsistently from month to month, health benefit costs were not allocated appropriately, and on some occasions underlying invoices could not be tied exactly to the amounts charged.

Most of the issues involved insignificant dollar amounts; however, the amount the School was over allocated for health insurance costs and management fees during the year totaled $829. This amount has been recorded as a receivable on the statement of net assets as of June 30, 2006. On October 26, 2007 the ICSMR issued a check in the amount of $829 to the School for repayment of the errors in the allocation of health insurance and management fees during fiscal year 2006.

While the management contract in place did not address the above noted items, the School entered into a new management agreement effective September 1, 2006 which does address the majority of items noted above. However, the School should review all management invoices for accuracy prior to payment to ensure the amounts being invoiced are appropriate and the charges are accurate. Reconciliation of amounts being invoiced to the School to the underlying documentation should be attached to each of the management company invoices to aid in this review.

Managements Response to Comments:

Management intends to closely review all management invoices to ensure any errors are detected in a timely manner. The required adjustments have been made for the errors noted during fiscal year 2006 audit. A discussion regarding the wording of the management contract will be discussed with the Finance Committee of the Board of Trustees at the next scheduled meeting and the appropriate changes will be made.

FINDING NUMBER 2006-004

Stipend payments made to various School and ICSMR personnel were paid during the audit for various training related sessions and technical services. However, there was minimal documentation related to the nature of service to be provided or when and where the actual training sessions or service was provided. In addition, the payment for these stipends were processed through the accounts payable process instead of the normal payroll process as required for employees. Therefore, there were no payroll taxes withheld or remitted on wages earned by School personnel. A review of the 1099 forms issued by the School for the applicable calendar years indicated there were no 1099 forms issued to these employees even though the amounts in question were above the $600 reporting amount.

All stipend payments should be approved by the Board of Trustees in advance with a listing of the reasons the stipends are being granted. Supplemental contracts should be issued to all employees receiving these stipend payments with a written expectation of duties to be performed to receive payment. All stipend payments to employees should be processed through the payroll system and the appropriate payroll tax withheld. The School should consult its legal counsel to determine if 1099 forms should be issued for payments made to employees in prior reporting periods.

Managements Response to Comments:

Effectively immediately, all stipend payments made to employees will be processed through the payroll system. Management will review the 1099 issue to determine what changes need to be made to ensure accurate reports are filed.

FINDING NUMBER 2006-005

For fiscal year 2006 the School reported a change in net assets of $(225,090) which resulted in an accumulated deficit of $178,930 at June 30, 2006. The sudden change in financial condition and magnitude of the accumulated deficit indicates the School's finances were not properly monitored throughout the year which would have allowed adjustments in the budget to be made once it was determined expenditures were exceeding revenues. Financial monitoring controls should include regular review of budget to actual information, detailed revenue and expenditure reports, projection of amounts for the remainder of the year based on current activity, monthly bank reconciliation and month end cash position reports. As a result of the cash flow issues encountered by the School during the year, the outstanding obligations owed to various vendors at year-end increased dramatically. As a result there were numerous instances where the School was required to pay late fees for over-due amounts.

The School should develop and institute an effective monitoring process for how the School is managed financially, including necessary adjustment of budget amounts if necessary. In addition, Board of Trustee members should be provided monthly financial reports which would enable members to more effectively determine the financial condition of the School on an on-going basis rather than waiting for the quarterly meetings to occur. Once management is able to become current with all vendors, the appropriate fiscal procedures should be implemented and complied with to ensure obligations are not made without the necessary funds being available.

Managements Response to Comments:

Management has changed the manner in which the finances of the School are being monitored beginning in fiscal year 2008. On a monthly basis, the principals or building heads review the financial statements (budget to actual) and are taking an active role in the financial monitoring of spending.

RICHARD ALLEN PREPARATORY COMMUNITY SCHOOL

SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006

Finding Number	Finding Summary	Fully Corrected?	Explanation of Correction
2005-001	Management contract between School and ICSMR does not contain specifics regarding the amount being billed and how certain costs are covered.	NO	Repeated as part of item 2006-003.
2005-002	No formal promissory note issued for amount ICSMR owed the School for future services.	N/A	No such transaction existed at June 30, 2006.

Mary Taylor, CPA
Auditor of State

RICHARD ALLEN PREPARATORY 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
MARCH 13, 2008

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