RICHARD ALLEN PREPARATORY COMMUNITY SCHOOL

Basic Financial Statements

June 30, 2005

with

Independent Auditors' Report

Mary Taylor, CPA
Auditor of State

January 9, 2007

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

Mary Taylor

MARY TAYLOR, CPA
Auditor of State

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Auditor of State
Betty Montgomery

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

We have reviewed the *Independent Auditors' Report* of the Richard Allen Preparatory, Montgomery County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Richard Allen Preparatory is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

December 28, 2006

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RICHARD ALLEN 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, 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 Preparatory Community School as of June 30, 2005, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 14, 2006, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and on compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 2 through 5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
July 14, 2006

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

CINCINNATI COLUMBUS DAYTON MIDDLETOWN SPRINGFIELD

The discussion and analysis of Richard Allen Preparatory 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 by $98,866 or 218.5 percent in fiscal year 2005, compared to fiscal year 2004.

- Total assets increased $27,935 which represents a 14.8 percent increase from the prior year due primarily to a $96,825 receivable recorded for the review of the state funding received by the School for the year which was offset by reductions in cash on hand, grants receivables and the carrying value of the School's capital assets.

- Total liabilities reported at June 30, 2005 were $70,931 less than those reported for the prior year due to the School retiring the capital lease debt ahead of schedule during fiscal year 2005, as well as recording lower payable amounts and accrued contract labor due to timing differences between the two years.

- The operating loss reported for fiscal year 2005 ($89,727) was $240,779 less than the operating loss reported for fiscal year 2004. The improved operating results were due to the additional state funding recorded as a result of the subsequent review by the State as well as the School becoming less depended on State and Federal Grants as it continues to mature.

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 are 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 years 2005 and 2004.

Table 1
Net Assets

	2005	2004
Assets:		
Current and other assets	$ 176,227	$ 131,960
Capital assets, net	40,688	57,020
Total Assets	216,915	188,980
Liabilities:		
Current liabilities	72,811	126,995
Non-current liabilities	-	16,747
Total Liabilities	72,811	143,742
Net Assets:		
Invested in capital assets	40,688	41,575
Restricted	24,161	124,133
Unrestricted	79,255	(120,470)
Total Net Assets	$ 144,104	$ 45,238

Total net assets of the School increased by $98,866 or 218.5 percent, while net assets invested in capital assets decreased by only $887 primarily due to current year depreciation of capital assets ($18,385) which was partially offset by current year capital asset acquisition in the amount of $2,053 and the payoff of capital lease obligation of $15,445.

The total assets of the School increased by $27,935 from the amounts reported on June 30, 2004. Subsequent to the end of the fiscal year, the Ohio Department of Education (ODE) reviews the School's funding provided through the foundation program. As a result of this review, ODE determined the School was due an additional $96,825 in state funding for fiscal year 2005. This amount is recorded as an intergovernmental receivable on the Statement of Net Asset. Decreases in cash on hand at the end of the year ($16,138) and federal grants receivable ($35,832) from the amounts reported for these accounts in the prior year were reported.

The decrease of $54,184 in current liabilities is due to decreases in liabilities associated with accrued contract labor and related benefits, as well as payoff of current portion of capital lease obligation. The decrease in contract labor was due to the timing of when payroll expenses were paid by the management company. At the end of fiscal year 2004, the School was obligated to reimburse the management company for three pay-periods related to that year whereas in 2005 it was only obligated for two pay-periods. During fiscal year 2005, the School paid off the capital lease obligation previously reported which accounted for the decrease in the non-current liabilities classification.

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

Table 2
Change in Net Assets

	2005	2004
Operating Revenues:		
Foundation payments	$ 1,304,297	$ 1,154,842
Disadvantaged pupil impact aid	271,213	131,032
Miscellaneous operating revenue	1,311	3,037
Non-Operating Revenues:		
State and federal grants	178,161	363,378
Other non-operating revenue	15,653	-
Total Revenues	1,770,635	1,652,289
Operating Expenses		
Salaries	-	2,348
Fringe benefits	135,525	155,458
Contractual employees	898,158	779,423
Management company fees	312,848	313,880
Building rental	63,600	60,282
Other purchased services	126,849	142,297
Materials and supplies	106,157	140,834
Depreciation	18,385	19,516
Other expenses	5,026	5,379
Non-Operating Expenses:		
Interest and fiscal charges	5,221	838
Total Expenses	1,671,769	1,620,255
Change in Net Assets	98,866	32,034
Net Assets, Beginning of Year	45,238	13,204
Net Assets, End of Year	$ 144,104	$ 45,238

Total revenue received by the School in fiscal year 2005 increased by $118,346 or 7.2 percent compared to fiscal year 2004. As shown in Table 2 above, the foundation and DPIA revenues reported for 2005 increased by $289,636 over those reported for the prior year due primarily to increased number of students, higher per pupil funding amounts, and ODE's foundation adjustment. This increase was somewhat offset by the $185,217 reduction in specific educational grants received from federal and state sources.

Total expenses of the School also increased by $51,514 or 3.2 percent from those reported for the previous year. The majority of the increase in expenses is attributed to increased cost of personnel (contractual employees and benefits). All employees are paid by ICSMR, Inc. and the School is then responsible for reimbursing ICSMR for gross payroll and benefits. In addition, certain positions which were once paid for through the management fees charged are now being allocated, in part, to the School. This also partially explains the decrease in the management fee and other purchased services expenses reported in fiscal year 2005 versus that reported in fiscal year 2004. Management's efforts to manage discretionary spending during 2005 resulted in most other reductions of expenses. The increase in interest and fiscal charges occurred as a result of the School paying off a capital lease for copier equipment ahead of the schedule lease payments.

Capital Assets

At June 30, 2005 the capital assets of the School consisted of $97,610 of equipment offset by $56,922 in accumulated depreciation resulted in net capital assets of $40,688. The $16,322 decrease in total net capital assets from the prior year is due to current year depreciation of $18,385 offset by $2,053 of equipment acquired during fiscal year 2005.

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

Debt

At June 30, 2004, the School reported a capital lease obligation totaling $15,445. During fiscal year 2005 the School paid this lease obligation in full. As a result, the School had no outstanding debt obligations to report at June 30, 2005.

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 Preparatory Community School, 368 South Patterson Blvd, Dayton, OH 45402.

RICHARD ALLEN PREPARATORY COMMUNITY SCHOOL

Statement of Net Assets

June 30, 2005

Assets	
Current assets:	
Cash and cash equivalents	$ 29,403
Receivables:	
Intergovernmental	120,985
Note	24,864
Prepaid expenses	975
Total current assets	176,227
Noncurrent assets:	
Capital assets (net of accumulated depreciation)	40,688
Total assets	216,915
Liabilities	
Current liabilities:	
Accounts payable	10,419
Accrued contract labor	53,858
Intergovernmental payable	8,534
Total liabilities	72,811
Net Assets	
Invested in capital assets	40,688
Restricted	24,161
Unrestricted	79,255
Total net assets	$ 144,104

See accompanying notes to the basic financial statements.

RICHARD ALLEN PREPARATORY COMMUNITY SCHOOL

Statement of Revenues, Expenses and Changes in Net Assets

Year Ended June 30, 2005

Operating revenues:	
Foundation payments	$ 1,304,297
Disadvantaged pupil impact aid	271,213
Miscellaneous operating revenue	1,311
Total operating revenues	1,576,821
Operating expenses:	
Fringe benefits	135,525
Contractual employees	898,158
Management company fees	312,848
Building rental	63,600
Other purchased services	126,849
Materials and supplies	106,157
Depreciation	18,385
Other	5,026
Total operating expenses	1,666,548
Operating loss	(89,727)
Non-operating revenues (expenses):	
State and federal grant revenue	178,161
Other non-operating revenue	15,653
Interest and fiscal charges	(5,221)
Total non-operating revenues	188,593
Change in net assets	98,866
Net assets at beginning of year	45,238
Net assets at end of year	$ 144,104

See accompanying notes to the basic financial statements.

RICHARD ALLEN PREPARATORY COMMUNITY SCHOOL
Statement of Cash Flows
Year Ended June 30, 2005

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
Cash flows from operating activities:		
Cash from State of Ohio	$	1,478,685
Cash payments to suppliers for goods and services		(1,545,213)
Cash payments to employees for fringe benefits		(157,848)
Other operating revenue		1,311
Net cash used for operating activities		(223,065)
Cash flows from noncapital financing activities:		
Federal and state subsidies		213,993
Contributions and donations		15,653
Net cash provided by noncapital financing activities		229,646
Cash flows from capital and related financing activities:		
Cash payments for capital acquisitions		(2,053)
Principal paid on capital lease		(15,445)
Interest paid on capital lease		(5,221)
Net cash used for capital and related financing activities		(22,719)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(16,138)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		45,541
CASH AND CASH EQUIVALENTS, END OF YEAR	$	29,403
Reconciliation of operating loss to net cash used for for operating activities		
Operating loss	$	(89,727)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation		18,385
Changes in assets and liabilities:		
Increase in intergovernmental receivable		(96,825)
Decrease in note receivable		803
Increase in prepaid expenses		(215)
Decrease in accounts payable		(24,242)
Decrease in contract labor payable		(19,205)
Decrease in intergovernmental payable		(6,233)
Decrease in compensated absences payable		(5,806)
Total Adjustments		(133,338)
Net cash used for operating activities	$	(223,065)

See accompanying notes to the basic financial statements.

1. Description of the School and Reporting Entity:

Richard Allen Preparatory, Inc. (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 teaching and administrative 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 11 for additional detail on the contractual relationship between ICSMR and the School).

The School was 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 sponsor's agreement with St. Aloysius Orphanage. 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 full-time and part-time certified teaching personnel and one non-certified support personnel who provide services to an enrollment of 270 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 and cash equivalents

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 of equipment 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.

G. Intergovernmental revenues

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

H. Operating and non-operating revenues and expenses

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

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

I. Accrued liabilities payable

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

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

Intergovernmental payable – payment for the employer's share of the retirement contribution ($7,540), workers' compensation ($79) and Medicaid ($915) 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 statement.

4. Deposits:

   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 $29,403 and the bank balance was $46,905. 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 $96,825 in additional foundation funding for fiscal year 2005 as determined by the Ohio Department of Education, as well as the following federal grants in which all grant requirements had been satisfied, Title I ($22,339) and the Summer Intervention Program ($1,821).

   B. Note

      At June 30, 2005 the School reported a note receivable amounting to $24,864. This note was issued by ICSMR on June 30, 2004 for an advance the School made to ICSMR for future management fees and payroll obligations. The promissory note was originally issued for $25,667 and provided that no interest accrue if it was settled in full by June 30, 2005. In addition, the School could demand all or any portion of the note principal at any time, except that principal payment could not be demanded in any event prior to June 30, 2005. During fiscal year 2005, ICSMR made payments totaling $803 against the note.

6. Capital Leases Payable:

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

7. Capital Assets:

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

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets being depreciated:				
Equipment	$ 95,557	$ 2,053	$ -	$ 97,610
Less: accumulated depreciation on:				
Equipment	(38,537)	(18,385)	-	(56,922)
Capital assets, net	$ 57,020	$ (16,322)	$ -	$ 40,688

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. Business personal property coverage carries a $250 deductible and has a $50,000 limit. Director and officer liability coverage is set at $1,000,000 per loss with a $1,000 deductible. General liability coverage provides $1,000,000 per occurrence and $2,000,000 in the aggregate with no deductible. The Cincinnati Insurance Company also provides umbrella liability coverage of $1,000,000 per occurrence, as well as, in the aggregate

There has been no significant reduction in coverage in relation to the prior fiscal year. Settled claims 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 11), insurance benefits for School employees are paid by the Institute through the monthly management fee established in the agreement.

9. Defined Benefit Pension Plans:

A. School Employees Retirement System

The School contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statue Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate, the current rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; at June 30, 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal year ended June 30, 2005, 2004 and 2003 were $21,243, $10,284, and $1,926, respectively; 100 percent has been contributed for all 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 $81,187, $96,330 and $78,080, respectively; 100 percent has been contributed for all fiscal years.

10. 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 $6,842 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 $4,607 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.

11. 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 also 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 benefits earned by those employees. For fiscal year 2005 the School reimbursed ICSMR $1,033,683 related to payroll and benefit reimbursement for employees assigned to the School.

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 $312,848 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	$ 898,158
Contract employees - benefits	135,525
Management company fee	134,722
Indirect Expenses:	
Adminstration expense allocation	178,126
Total Expenses	$ 1,346,531

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.

12. Restricted Net Assets:

At June 30, 2005 the School reported restricted net assets totaling $24,161. The nature of the net asset restrictions are as follows:

State specific educational program grants	$ 1,822
Federal specific educational program grants	22,339
Total	$ 24,161

13. Long-Term Liabilities:

A schedule of changes in the long-term liabilities of the School follows:

	Balance July 1, 2004	Increase	Decrease	Balance June 30, 2005
Compensated Absences Payable	$ 5,806	$ -	$ 5,806	$ -
Capital Lease Obligations	15,445	-	15,455	-
Total Long-Term Obligations	$ 21,251	$ -	$ 21,251	$ -

14. Contingencies:

A. Grants

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

B. State funding

The Ohio Department of Education conducts reviews of enrollment data and FTE calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The results of this review resulted in an additional $96,825 of foundation funding for the School.

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 J & A Educational Properties under a lease agreement which began on August 30, 2000, for fiscal year 2001 renewable annually on July 1 as long as the School remains chartered by the Ohio Department of Education to operate a chartered public school. If the School loses their Ohio Department of Education charter the lease terminates and the premises must be vacated within 30 days. Rent for fiscal year 2005 totaled $63,600. The lease was renewed on July 1, 2005 for fiscal year 2006.

16. Related Parties:

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

During fiscal year 2005, the School provided advances on management fees and payroll obligations to ICSMR for which ICSMR issued a demand note to the School (see Note 5 for additional information).

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	$ 79,626
Computer and network services	6,497
Property services	13,313
Meetings and travel	1,000
Communications	12,234
Public relations and postage	1,143
Utilities	3,209
Pupil transportation	510
Property and liability insurance	6,283
Student intervention	3,034
	$ 126,849

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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, 2005, and have issued our report thereon dated July 14, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United Sates of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and responses as items 2005-001 and 2005-002.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected with in a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 PREPARATORY COMMUNITY SCHOOL

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

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

FINDING NUMBER 2005-001

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

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

FINDING NUMBER 2005-002

At June 30, 2005 the School reported a note receivable in the amount of $24,864 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 $25,667 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 PREPARATORY 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 $600 of 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	Errors in ICSMR's billings to the School resulted in an overpayment of $7,240 by the School to ICSMR.	YES	Reimbursement was made to the School in February 2005 to address this issue.
2004-003	Management contract between School and ICSMR does not contain specifics regarding the amount being billed and how certain costs are covered.	NO	N/A
2004-004	School provided an advance to ICSMR for future contractual services to be provided.	NO	N/A
2004-005	Lack of separation of SERS transactions from those of related schools managed by ICSMR.	NO	Comment was repeated in FY05 management letter.
2004-006	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.

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RICHARD ALLEN PREPARATORY

MONTGOMERY COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JANUARY 16, 2007