

KIPP AMP ACADEMY CHARTER SCHOOL
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2010 AND 2009

**KIPP AMP ACADEMY CHARTER SCHOOL
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INDEPENDENT AUDITORS' REPORT

Board of Trustees
KIPP AMP Academy Charter School
Brooklyn, New York

We have audited the accompanying statements of financial position of KIPP AMP Academy Charter School (a nonprofit organization) as of June 30, 2010 and 2009, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of KIPP AMP Academy Charter School's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U. S. generally accepted auditing standards 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 audits 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 audits provide 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 KIPP AMP Academy Charter School as of June 30, 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2010 on our consideration of KIPP AMP Academy Charter 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 compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on 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.

LarsonAllen LLP

LarsonAllen LLP

Blue Bell, Pennsylvania
October 18, 2010

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**KIPP AMP ACADEMY CHARTER SCHOOL
STATEMENTS OF FINANCIAL POSITION
YEARS ENDED JUNE 30, 2010 AND 2009**

	2010	2009
ASSETS		
Cash	\$ 1,234,004	\$ 1,271,765
Grants and Contracts Receivable	85,748	35,037
Equipment	62,846	110,527
Prepaid Expenses and Other Assets	67,901	9,871
Due from Related Parties	-	150,073
Total Assets	\$ 1,450,499	\$ 1,577,273
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 418,348	\$ 193,343
Due to Related Parties	38,879	-
Refundable Advances	80,741	17,462
Capital Lease Obligations	24,397	41,637
Total Liabilities	562,365	252,442
NET ASSETS		
Unrestricted	888,134	1,299,831
Temporarily Restricted	-	25,000
Total Net Assets	888,134	1,324,831
Total Liabilities and Net Assets	\$ 1,450,499	\$ 1,577,273

See accompanying Notes to Financial Statements.

**KIPP AMP ACADEMY CHARTER SCHOOL
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2010 AND 2009**

	2010		2009	
	Unrestricted	Temporarily Restricted	Total	Total
OPERATING REVENUE				
State and Local Per Pupil Operating Revenue	\$ 4,243,039	-	\$ 4,243,039	\$ 3,463,529
Government Grants and Contracts	150,565	-	150,565	141,922
Total Operating Revenue	4,393,604	-	4,393,604	3,605,451
OPERATING EXPENSES				
Program Services				
School Operations	4,688,872	-	4,688,872	3,156,428
Total Program Services	4,688,872	-	4,688,872	3,156,428
Supporting Services				
Management and General Fundraising	416,823	-	416,823	250,058
Total Supporting Services	416,823	-	416,823	20,269
Total Operating Expenses	5,105,695	-	5,105,695	270,327
School Operating Surplus (Deficit)	(712,091)	-	(712,091)	3,426,755
Other Revenue:				
Contributions and Other Grants	273,573	-	273,573	178,696
Interest and Other Income	1,821	-	1,821	150,000
Net Assets Released from Restrictions	25,000	(25,000)	-	15,879
CHANGE IN NET ASSETS	(411,697)	(25,000)	(436,697)	-
Net Assets - Beginning of Year	1,299,831	25,000	1,324,831	344,575
NET ASSETS - END OF YEAR	\$ 888,134	\$ -	\$ 888,134	\$ 980,256
				\$ 25,000
				\$ 1,299,831
				\$ 1,324,831

See accompanying Notes to Financial Statements.

**KIPP AMP ACADEMY CHARTER SCHOOL
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2009**

	2010				2009				
	Program Services		Supporting Services		Program Services		Supporting Services		Total Expenses
	School Operations	Management & General	Management & General	Total Expenses	School Operations	Management & General	Fund Raising	Total	
Salaries	\$ 2,751,946	\$ -	\$ -	\$ 2,751,946	\$ 2,055,680	\$ 192,251	\$ 19,504	\$ 211,755	\$ 2,267,435
Payroll Taxes and Employee Benefits	1,080,114	-	-	1,080,114	412,448	32,897	765	33,662	446,110
Equipment and Building	142,075	-	-	142,075	46,719	4,369	-	4,369	51,088
Professional Fees	11,786	-	-	11,786	8,907	3,115	-	3,115	12,022
Contracted Services - Other	94,121	-	-	94,121	77,070	482	-	482	77,552
Supplies	43,628	-	-	43,628	32,574	4,858	-	4,858	37,432
Instructional Materials	66,668	-	-	66,668	58,173	-	-	-	58,173
Academic Programming	66,230	-	-	66,230	52,633	-	-	-	52,633
Telephone and Internet	7,670	-	-	7,670	13,060	131	-	131	13,191
Insurance	34,169	-	-	34,169	32,863	1,275	-	1,275	34,138
Food	35,243	-	-	35,243	27,573	37	-	37	27,610
Field Lessons	197,131	-	-	197,131	198,114	-	-	-	198,114
Staff Development	60,456	-	-	60,456	41,960	10,643	-	10,643	52,603
Fees and Other	15,274	-	416,823	432,097	17,057	-	-	-	17,057
Licensing Fee	34,680	-	-	34,680	30,000	-	-	-	30,000
Depreciation and Amortization	47,681	-	-	47,681	51,597	-	-	-	51,597
Total Functional Expenses	\$ 4,688,872	\$ 416,823	\$ 5,105,695	\$ 3,156,428	\$ 250,058	\$ 20,269	\$ 270,327	\$ 3,426,755	

See accompanying Notes to Financial Statements.

**KIPP AMP ACADEMY CHARTER SCHOOL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (436,697)	\$ 344,575
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	47,681	51,597
Adjustment to the Cost of Equipment	-	9,454
Loss from Theft of Equipment	-	4,262
(Increase) Decrease in Assets:		
Grants and Contracts Receivable	(50,711)	45,832
Prepaid Expenses and Other Assets	(58,030)	12,254
Due from Related Parties	150,073	(150,073)
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Expenses	225,005	71,283
Due to Related Parties	38,879	(77,131)
Refundable Advances	63,279	(10,380)
Net Cash Provided (Used) by Operating Activities	<u>(20,521)</u>	<u>301,673</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Capital Lease Obligations	<u>(17,240)</u>	<u>(21,901)</u>
NET INCREASE (DECREASE) IN CASH	(37,761)	279,772
Cash- Beginning	<u>1,271,765</u>	<u>991,993</u>
CASH - ENDING	<u><u>\$ 1,234,004</u></u>	<u><u>\$ 1,271,765</u></u>
Supplemental Disclosure of Cash Flow Information:		
Cash Paid for Interest	\$ 3,834	\$ 8,628

See accompanying Notes to Financial Statements.

**KIPP AMP ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2010 AND 2009**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

KIPP AMP Academy Charter School (the "School") is an education corporation that operates in the borough of Brooklyn and county of Kings, New York. On March 15, 2005, the Board of Regents of the University of the State of New York granted the School a provisional charter valid for a term of five years and renewable upon expiration. The charter was renewed and is effective through May 16, 2015.

The School's mission is to develop and strengthen the students' academic skills, intellectual habits, and character traits needed to succeed in top-quality high schools, colleges and to contribute to the social improvement of their own community and society at large.

In fiscal year 2009, the School operated classes for students in grades five through eight. In fiscal year 2010, the School added grade nine.

The major source of revenue and support for the School is from state and local funding on a per pupil basis. The New York City Department of Food Services provides free and reduced-price lunches and the New York City Department of Transportation provides transportation vouchers directly to a majority of the School's students. Amounts with respect to these items are not included in these financial statements.

Financial Statement Presentation

The financial statements of the School have been prepared on the accrual basis of accounting in accordance with established accounting standards for not for profit entities. The School is required to report information regarding its financial position and activities in according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Unrestricted net assets are not restricted by donors or the donor-imposed restrictions have expired. Temporarily restricted net assets contain donor-imposed restrictions that permit the School to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by action of the School. Permanently restricted net assets contain donor-imposed restrictions that stipulate the resources be maintained permanently but permit the School to use or expend part or all of the income derived from the restricted assets for either specified or unspecified purposes. Currently, the School only has unrestricted net assets.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**KIPP AMP ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2010 AND 2009**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits.

Governmental Funding

Revenue from the state and local governments resulting from the School's charter status and based on the number of students enrolled is recorded when services are performed in accordance with the charter agreement. Federal and state funds are recognized by the School when expenditures are incurred and billable.

Revenue from other government grants to which the School is entitled is recognized mostly on student enrollment. Some grants are provided for specific educational endeavors which are not based on student enrollment and are recorded when related expenditures are incurred by the School.

Federal and state funds received prior to the services provided or the related expenditures being incurred are deferred and recorded as refundable advances.

Contributions

The School reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributed Services

Contributed services are recorded at their fair value when such services are rendered. Contributed services are recognized as contributions if the services: (a) create or enhance nonfinancial assets or (b) required specialized skills and are performed by people with those skills and would otherwise be purchased by the School and (c) are measurable.

A number of volunteers have made a contribution of their time to the School. These in-kind contributions have not been reflected in the financial statements since they do not meet the criteria for recognition under accounting standards for contributions.

Equipment

Equipment is recorded at cost. The School capitalizes all purchases of equipment in excess of \$2,500. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. Equipment acquired with certain government contract funds are recorded as expenses when the grantor retains title.

Equipment acquired under capital leases are recorded in equipment with corresponding obligations carried in liabilities. The amount capitalized is the lower of the present value of minimum lease payments or the fair value of the leased asset. Amortization on assets leased under capital leases is recorded on a straight-line basis over the estimated useful life of the asset or the term of the lease, depending on the criteria used to capitalize the lease.

**KIPP AMP ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2010 AND 2009**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Expense Allocation

The costs of providing services have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated to the program and support services benefited.

Concentration of Credit Risk

The School maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits.

Income Taxes

The School is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Service Code and applicable income tax regulations of the State of New York. No provision for income taxes has been established, as the School has no unrelated business activity.

Effective July 1, 2009 the School adopted the guidance in the income tax standard regarding the recognition and measurement of uncertain tax positions. The guidance clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements. The guidance further prescribes recognition and measurement of tax provisions taken or expected to be taken on a tax return that are not certain to be realized. The adoption of this standard had no impact on the School's financial statements. The School's tax returns for the years 2007, 2008, and 2009 are open for federal and state tax examinations.

Subsequent Events

In preparing these financial statements, the School has evaluated events and transactions for potential recognition or disclosure through October 18, 2010, the date the financial statements were available to be issued.

NOTE 2 RELATED PARTY TRANSACTIONS

The Knowledge is Power Program Foundation ("KIPP Foundation") is a national, nonprofit organization that trains school leaders to open and run academically rigorous public schools. The School is a member of KIPP Foundation's KIPP Network of Schools and, as such, is eligible for a range of benefits and fee-based services.

The School has entered into a trademark license agreement with KIPP Foundation subject to a license fee of 1% per pupil operating revenue not to exceed \$30,000 per elementary school, middle school or high school. For the years ended June 30, 2010 and 2009, the School incurred licensing fees amounting to \$34,680 and \$30,000, respectively.

**KIPP AMP ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2010 AND 2009**

NOTE 2 RELATED PARTY TRANSACTIONS (CONTINUED)

For the year ended June 30, 2010, the back-office functions are centralized and handled by KIPP NYC, LLC shared services team. The School paid a management fee to LLC in the amount of \$416,823 for the year ended June 30, 2010. For the year ended June 30, 2009, the shared services team was operated through KIPP NYC and a portion of the costs of the shared services salaries were allocated to and reimbursed by the school. Amounts due to related parties represent short-term timing differences of pending settlements. The Schools also share some common membership on their Board of Directors.

The School received grants from KIPP NYC in the amounts of \$115,200 and \$0 for the years ended June 30, 2010 and 2009, respectively.

NOTE 3 EQUIPMENT

Equipment consists of the following:

	<u>2010</u>	<u>2009</u>
Furniture and Fixtures	\$ 57,262	\$ 57,262
Technology	242,642	242,642
Equipment	<u>56,164</u>	<u>56,164</u>
Total	356,068	356,068
Less: Accumulated Depreciation	<u>(293,222)</u>	<u>(245,541)</u>
Total Equipment	<u>\$ 62,846</u>	<u>\$ 110,527</u>

NOTE 4 CAPITAL LEASE OBLIGATION

During fiscal year 2008, the School acquired two new copiers financed by capital leases with an unrelated thirty party financing company. As of June 30, 2010 and 2009, the leased copiers were reflected at a cost of \$67,544, and related accumulated amortization amounted to \$43,148 and \$25,907, respectively. The two capital leases expire in December 2011. The leases require monthly payments of principal and interest amounting to \$875 and \$881, respectively, at annual interest rates of 4% per annum. Future minimum lease payments as of June 30, 2010 under these capital leases are as follows:

<u>Year Ending June 30.</u>	<u>Amount</u>
2011	21,067
2012	<u>5,280</u>
Total	26,347
Less: Amount Representing Interest	<u>1,950</u>
Present Value of Minimum Lease Payments	<u>\$ 24,397</u>

**KIPP AMP ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2010 AND 2009**

NOTE 5 PENSION

The School contributes to a multi-employer defined benefit pension plan (the "Plan") on behalf of the teachers. The amount charged to operations for contributions to this Plan amounted to \$591,675 and \$101,067 for the years ended June 30, 2010 and 2009, respectively.

NOTE 6 SCHOOL FACILITY

The School has an agreement with the New York City Department of Education for dedicated and shared space at P.S. 390, a New York City public school, located at 1224 Park Place, Brooklyn, New York. The facility is provided to the School at no cost. The School is responsible for any overtime-related costs for services provided beyond regular opening hours. These costs have been included in contracted services in the accompanying statement of functional expenses.

NOTE 7 OPERATING EXPENSES

Operating expenses are presented in the statement of functional expenses classified according to the significant program activity related to the purpose for which the school exists or supporting service.

The significant activities are:

School Operations

Represents work (time and materials) that is specifically related to or necessary for the programming aspects of the School. The activities and related costs directly affecting students or parents fall under this program.

The significant supporting services are:

Management and General

Time and materials relating to operating the non-programmatic/back-end operational functions of the School are reflected as management and general expenses. These expenses include, but are not limited to, human resources, finance, and technology activities.

Fundraising

Represents work (time and materials) associated with the School's fund-raising program including but not limited to annual mailings, donor meeting and events. The fundraising expenses were incurred by KIPP NYC, LLC during this 2010 fiscal year.

**KIPP AMP ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2010 AND 2009**

NOTE 8 CONTINGENCY

Certain grants and contracts may be subject to audit by the funding sources. Such audits might result in disallowances of costs submitted for reimbursement. Management is of the opinion that such cost disallowances, if any, will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been provided in the accompanying financial statements for such potential claims.

INDEPENDENT AUDITORS' 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*

Board of Trustees
KIPP AMP Academy Charter School
Brooklyn, New York

We have audited the financial statements of KIPP AMP Academy Charter School (the "School") as of and for the year ended June 30, 2010, and have issued our report thereon dated October 18, 2010. We conducted our audit in accordance with U.S. generally accepted auditing standards 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain other matters that we reported to the management of KIPP AMP Academy Charter School in a separate letter dated October 18, 2010.

This report is intended solely for the information and use of the audit committee, board of trustees, management, the New York State Education Department and the Board of Regents of the University of the State of New York and should not be used by anyone other than these specified parties.

LarsonAllen LLP

LarsonAllen LLP

Blue Bell, Pennsylvania
October 18, 2010