

**KIPP ACADEMY CHARTER SCHOOL
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008**

**KIPP ACADEMY CHARTER SCHOOL
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2009 AND 2008**

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	2
STATEMENTS OF ACTIVITIES	3
STATEMENTS OF FUNCTIONAL EXPENSES	4
STATEMENTS OF CASH FLOWS	6
NOTES TO FINANCIAL STATEMENTS	7
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	13

INDEPENDENT AUDITORS' REPORT

Board of Trustees
KIPP Academy Charter School
Bronx, New York

We have audited the accompanying statement of financial position of KIPP Academy Charter School (a nonprofit organization) as of June 30, 2009, and the related statements of activities, functional expenses, and cash flows for the year then ended. The financial statements are the responsibility of KIPP Academy Charter School's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of KIPP Academy Charter School as of June 30, 2008, were audited by other auditors whose report dated October 23, 2008, expressed an unqualified opinion on those financial statements.

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. 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 KIPP Academy Charter School as of June 30, 2009, and the changes in its net assets and its cash flows for the year 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 21, 2009 on our consideration of KIPP 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

Blue Bell, Pennsylvania
October 21, 2009

**KIPP ACADEMY CHARTER SCHOOL
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2009 AND 2008**

	2009	2008
ASSETS		
Cash	\$ 3,828,146	\$ 3,561,358
Grants and Contracts Receivable	67,987	562,365
Equipment	257,519	535,234
Prepaid Expenses and Other Assets	78,885	47,177
Due from Related Parties	239,450	358,068
Total Assets	\$ 4,471,987	\$ 5,064,202
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 325,346	\$ 457,495
Refundable Advances	56,115	92,530
Capital Lease Obligations	36,334	66,183
Total Liabilities	417,795	616,208
NET ASSETS		
Unrestricted	3,972,433	4,204,591
Temporarily Restricted	81,759	243,403
Total Net Assets	4,054,192	4,447,994
Total Liabilities and Net Assets	\$ 4,471,987	\$ 5,064,202

See accompanying Notes to Financial Statements.

**KIPP ACADEMY CHARTER SCHOOL
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2009 AND 2008**

	2009		2008		
	Unrestricted	Temporarily Restricted	Total	Temporarily Restricted	Total
OPERATING REVENUE					
State and Local Per Pupil Operating Revenue	\$ 3,441,389	\$ -	\$ 3,441,389	\$ -	\$ 2,805,085
Government Grants and Contracts	203,643	-	203,643	-	153,878
Total Operating Revenue	3,645,032	-	3,645,032	-	2,958,963
OPERATING EXPENSES					
Program Services					
School Operations	3,573,949	-	3,573,949	-	3,084,851
KIPP to College	1,699,151	-	1,699,151	-	1,604,240
NYC Expansion Program	1,695,761	-	1,695,761	-	553,376
Orchestra Special Programs	(7,230)	-	(7,230)	-	379,035
Total Program Services	6,961,631	-	6,961,631	-	5,621,502
Supporting Services					
Management and General	779,699	-	779,699	-	674,072
Fundraising	45,593	-	45,593	-	258,779
Total Supporting Services	825,292	-	825,292	-	932,851
Total Expenses	7,786,923	-	7,786,923	-	6,554,353
School Operating Deficit	(4,141,891)	-	(4,141,891)	-	(3,595,390)
Other Revenue:					
Contributions and Other Grants	3,110,421	597,000	3,707,421	2,877,400	3,302,054
Interest and Other Income	40,668	-	40,668	-	206,151
Donated Services	-	-	-	-	28,335
Realized Loss on Marketable Securities	-	-	-	-	(28,968)
Net Assets Released from Restrictions	758,644	(758,644)	-	(3,140,756)	-
CHANGE IN NET ASSETS					
	(232,158)	(161,644)	(393,802)	(263,356)	(87,818)
Net Assets - Beginning of Year	4,204,591	243,403	4,447,994	506,759	4,535,812
NET ASSETS - END OF YEAR	\$ 3,972,433	\$ 81,759	\$ 4,054,192	\$ 243,403	\$ 4,447,994

See accompanying Notes to Financial Statements.

**KIPP ACADEMY CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2009**

2009

	Program Services						Supporting Services			Total Expenses	
	School Operations	KIPP to College	KIPP NYC			Orchestra Special Programs	Total Program Services	Management & General	Fund Raising		Total
			Expansion and Special Projects								
Salaries	\$ 2,164,061	\$ 1,272,397	\$ 1,112,499	\$ -	\$ 4,548,957	\$ 586,040	\$ 42,353	\$ 628,393	\$ 5,177,350		
Payroll Taxes and Employee Benefits	788,661	278,736	128,807	-	1,196,204	113,185	3,240	116,425	1,312,629		
Equipment and Maintenance	47,078	13,245	20,694	-	81,017	15,018	-	15,018	96,035		
Professional Fees	12,931	1,602	1,402	-	15,935	2,089	-	2,089	18,024		
Contracted Services - Other	11,324	23,368	275,443	-	310,135	8,642	-	8,642	318,777		
Supplies	19,732	16,635	7,197	-	43,564	17,107	-	17,107	60,671		
Instructional Materials	21,321	8,049	3,670	-	33,040	-	-	-	33,040		
Academic Programming	-	21,578	573	-	22,151	-	-	-	22,151		
Telephone and Internet	18,500	7,428	5,844	-	31,772	(8,043)	-	(8,043)	23,729		
Insurance	33,827	11,576	-	-	45,403	6,117	-	6,117	51,520		
Food	10,227	7,182	2,951	-	20,360	116	-	116	20,476		
Field Lessons	153,277	1,376	4,074	(7,478)	151,249	-	-	-	151,249		
Staff Development	14,104	14,723	132,607	248	161,682	39,428	-	39,428	201,110		
Student Trips	4,267	7,352	-	-	11,619	-	-	-	11,619		
Fees	20,018	4,790	-	-	24,808	-	-	-	24,808		
Depreciation and Amortization	254,621	9,114	-	-	263,735	-	-	-	263,735		
Total Program Services	3,573,949	1,699,151	1,695,761	(7,230)	\$ 6,961,631	\$ 779,699	\$ 45,593	\$ 825,292	\$ 7,786,923		
Management and General Fundraising	233,776	299,879	246,044	-	-	-	-	-	-		
	-	-	-	45,593	-	-	-	-	-		
Total Expenses	\$ 3,807,725	\$ 1,999,030	\$ 1,941,805	\$ 38,363							
Total Number of Students	253	660									
Average Cost Per Student	\$ 15,050	\$ 3,029									

See accompanying Notes to Financial Statements.

(4)

**KIPP ACADEMY CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2008**

2008

	Program Services					Supporting Services			Total Expenses
	School Operations	KIPP to College	Expansion and Special Projects	Orchestra Special Programs	Total Program Services	Management & General	Fund Raising	Total	
Salaries	\$ 1,827,392	\$ 1,231,305	\$ 419,956	\$ 177,333	\$ 3,655,986	\$ 452,720	\$ 223,017	\$ 675,737	\$ 4,331,723
Payroll Taxes and Employee Benefits	521,057	195,166	58,169	56,262	830,654	84,952	17,186	102,138	932,792
Equipment and Maintenance	3,336	20,173	8,041	-	31,550	3,520	-	3,520	35,070
Professional Fees	37,683	1,284	1,284	-	40,251	63,222	-	63,222	103,473
Contracted Services - Other	14,699	10,596	41,772	-	67,067	7,960	11,689	19,649	86,716
Supplies	15,663	17,139	8,429	4,137	45,368	11,884	2,951	14,835	60,203
Instructional Materials	25,593	19,168	-	-	44,761	-	12	12	44,773
Academic Programming	16,755	504	1,618	-	18,877	-	-	-	18,877
Telephone and Internet	12,911	12,265	293	-	25,469	345	-	345	25,814
Insurance	35,113	23,408	-	-	58,521	-	-	-	58,521
Food	20,898	4,749	221	85	25,953	124	60	184	26,137
Field Lessons	188,962	1,443	-	134,162	324,567	-	-	-	324,567
Staff Development	14,721	43,685	13,593	6,831	78,830	49,345	3,402	52,747	131,577
Student Trips	281	16,406	-	-	16,687	-	-	-	16,687
Fees	3,636	4,893	-	-	8,529	-	462	462	8,991
Miscellaneous	15,000	-	-	225	15,225	-	-	-	15,225
Depreciation and Amortization	331,151	2,056	-	-	333,207	-	-	-	333,207
Total Operating Expenses	3,084,851	1,604,240	553,376	\$ 379,035	\$ 5,621,502	\$ 674,072	\$ 258,779	\$ 932,851	\$ 6,554,353
Management and General Fundraising	221,171	452,901	-	-	-	-	-	-	-
	72,870	146,429	39,480	-	-	-	-	-	-
Total Expenses	\$ 3,378,892	\$ 2,203,570	\$ 592,856						
Total Number of Students	248	538							
Average Cost Per Student	\$ 13,625	\$ 4,096							

See accompanying Notes to Financial Statements.

(5)

**KIPP ACADEMY CHARTER SCHOOL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2009 AND 2008**

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (393,802)	\$ (87,818)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	263,735	333,207
Loss on Disposal of Capital Lease	7,525	-
Adjustment to the Cost of Equipment	6,455	-
(Increase) Decrease in Assets:		
Grants and Contracts Receivable	494,378	(414,256)
Prepaid Expenses and Other Assets	(31,708)	(16,438)
Due From Related Parties	118,618	(158,011)
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Expenses	(132,149)	100,631
Refundable Advances	(36,415)	92,530
Net Cash Provided (Used) by Operating Activities	296,637	(150,155)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Equipment	-	(226,862)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Capital Lease Obligation	(29,849)	(27,475)
NET INCREASE (DECREASE) IN CASH	266,788	(404,492)
Cash- Beginning	3,561,358	3,965,850
CASH - ENDING	\$ 3,828,146	\$ 3,561,358
 Supplemental Disclosure of Cash Flow Information:		
Cash Paid for Interest	\$ 6,427	\$ 2,717
 Supplemental Schedule of Noncash Investing and Financing Activity:		
Purchase of Equipment Financed by Capital Lease	\$ -	\$ 57,279

See accompanying Notes to Financial Statements.

**KIPP ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

KIPP Academy Charter School (the "School") is an education corporation that operates as a charter school in the borough of the Bronx, New York City. On May 4, 2000, the Board of Regents of the City of New York for and on behalf of the State Education Department granted the School a provisional charter valid for a term of five years from the effective date of September 1, 2000 and renewable upon expiration. The charter was renewed and is effective through August 31, 2010.

The School was converted from an existing New York City Department of Education school. The School's mission is to prepare students with the academic and character skills necessary to succeed in high school, college and the competitive world beyond.

In fiscal years 2009 and 2008, the School operated middle school classes for students in grades five through eight.

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.

Basis of Accounting

The financial statements of the School have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payable, and other liabilities.

Financial Statement Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-For-Profit Organizations. Under SFAS No. 117, the School is required to report information regarding its financial position and activities 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. The School only has unrestricted and temporarily restricted net assets.

**KIPP ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 is based on the number of students enrolled. The revenue 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.

Equipment and Depreciation

Equipment is recorded at cost. The School capitalizes 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.

Fixed assets 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 the 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 ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Legal services were provided by individuals to the School at no charge. The value of such contributed legal services for the year ended June 30, 2009 and 2008 amounted to \$0 and \$28,335, respectively, and is included in donated services and professional fees in the accompanying financial statements.

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 Statement of Financial Accounting Standards, No. 116, *Accounting for Contributions Received and Contributions Made*.

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.

In July 2006, the Financial Accounting Standards Board (the "FASB") issued interpretation No. 48, *Accounting for Uncertainty in Income Taxes* – an interpretation of FASB Statement No. 109 ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return. The cumulative effect of applying the provisions of FIN 48, if any, will be reported as an adjustment to the opening balance of net assets for the fiscal year of adoption. Additional disclosures about the amounts of such liabilities will also be required. In February 2008, the FASB delayed the effective date of FIN 48 for certain nonpublic enterprises to annual financial statements for fiscal years beginning after December 15, 2007. In October 2008, the FASB further delayed the effective date for an additional year for certain nonpublic enterprises. The School will be required to adopt FIN 48 in its June 30, 2010 financial statements. The adoption of FIN 48 is not expected to have a material impact on the School's financial position, change in net assets or cash flows.

**KIPP ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued)

The School has elected to defer application of FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes." The School follows Financial Accounting Standard No. 5 "Accounting for Contingencies" for evaluating uncertain tax positions.

Fair Value of Financial Instruments

On July 1, 2008, the School adopted Statement of Financial Accounting Standard No. 157, Fair Value Measurements (SFAS 157). As permitted, adoption of SFAS 157 has been delayed for certain nonfinancial assets and nonfinancial liabilities to July 1, 2009. SFAS 157 applies to reported balances that are required or permitted to be measured at fair value under an existing accounting pronouncement. The School currently does not measure any of its assets or liabilities at fair value and therefore there is no impact on the adoption of this standard.

The School also was able to adopt Statement of Financial Accounting Standard No. 159, The Fair Value Option for Financial Assets and Liabilities (SFAS 159) on July 1, 2008. SFAS 159 allows entities the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on an instrument-by-instrument basis. The School has not elected to measure any existing financial instruments at fair value at July 1, 2008, as permitted under SFAS 159. However, the School may elect to measure newly acquired financial instruments at fair value in the future.

Subsequent Events

In preparing these financial statements, the School has evaluated events and transactions for potential recognition or disclosure through October 21, 2009, 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 back-office functions for the other KIPP New York City network schools are centralized and handled by KIPP New York Inc.'s (KIPP NYC) shared services team, whose salaries are paid by the School. A portion of the costs of shared services salaries are allocated to other KIPP NYC network schools. Amounts due from/to related parties represent short-term timing differences of pending settlements. The Schools also share common membership on their Board of Directors.

The following grants were provided to the School from KIPP NYC:

KIPP to College	\$ 1,655,549
KIPP NYC Expansion	1,641,686
KIPP Opportunity Fund	<u>262,400</u>
Total	<u>\$ 3,559,635</u>

**KIPP ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 3 EQUIPMENT

Equipment consists of the following:

	2009	2008
Furniture and Fixtures	\$ 38,725	\$ 38,725
Technology	1,230,640	1,313,819
Equipment	241,864	241,864
Total	1,511,229	1,594,408
Less: Accumulated Depreciation	(1,253,710)	(1,059,174)
Total Equipment	\$ 257,519	\$ 535,234

NOTE 4 PENSION PLAN

In accordance with the agreement to convert the School to a charter school from an existing New York City Department of Education school, the teachers of the School are members of the United Federation of Teachers (the "UFT").

In accordance with employment contracts with the UFT, the School is required to contribute 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 \$452,814 and \$255,791 for the years ended June 30, 2009 and 2008, respectively.

In the event of withdrawal from the Plan, the School may be required to record an obligation for its portion of the unfunded benefit obligations of the Plan. Such amounts, if any, are not presently determinable.

NOTE 5 CAPITAL LEASE OBLIGATIONS

The School leases two copiers under capital leases, one expiring November 2009 and one expiring December 2011. As of June 30, 2009 and 2008, the leased copiers are reflected at a cost of \$73,298 and \$157,725, respectively, and related accumulated depreciation of \$36,810 and \$90,751, respectively. The leases require monthly payments of principal and interest ranging from \$569 to \$1,289 at rates ranging from 7.09% to 11.31% per annum.

Future minimum payments under the capital leases as of June 30, 2009 are as follows:

Year Ending June 30,	Amount
2010	\$ 18,313
2011	15,468
2012	7,723
Total	41,504
Less: Amount Representing Interest	5,170
Present Value of Minimum Lease Payments	\$ 36,334

**KIPP ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 6 SCHOOL FACILITY

The School occupies approximately 25,000 square feet of space through an agreement with the New York City Department of Education for this dedicated and shared space at P.S. 151, a New York City public school, located at 250 East 156th Street in the South Bronx, 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 building costs 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

School operations represent the time and materials 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.

KIPP to College

The KIPP to College program represents the time and materials directly associated with this program. The goal of the program is to ensure that KIPP alumni are able to overcome any obstacle they face and pursue successful futures. The program achieves this goal by providing academic, support services, counseling, extracurricular activities, summer internships and extensive support in the college application process.

KIPP NYC Expansion and Special Projects

This program consists of costs associated with KIPP NYC's continued growth and success in New York City. This program includes but is not limited to KIPP NYC high school expansion plans, KIPP NYC elementary school expansion plans and the KIPP NYC's participation in "Your Name Here" Teacher University.

Orchestra Special Programs

Represents work (time and materials) directly associated with the touring and special performances of the KIPP Academy String and Rhythm Orchestra occurring annually. The KIPP Academy of String and Rhythm Orchestra is widely regarded as among the finest school orchestras in the nation. This program is designed to teach students the desire, discipline and dedication that will lead to success in life. The Orchestra participates in activities beyond the scope of the School on a regular basis. Such activities have included the KIPP Foundation's annual KIPP School Summit as well as the KIPP NYC Celebration Concert.

**KIPP ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 7 OPERATING EXPENSES (CONTINUED)

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

Fundraising expenditures are those associated with the School's fundraising efforts including, but not limited to, annual mailings, donor meetings and events.

NOTE 8 RESTRICTIONS ON NET ASSET BALANCES

Temporarily restricted net assets at June 30, 2009 and 2008 were available for the following purposes:

	2009	2008
Furniture and Fixtures	\$ 48,328	\$ 48,328
Salaries	33,431	33,431
KIPP NYC Expansion and Special Projects	-	157,144
Reading Program	-	4,500
Total Temporarily Restricted Net Assets	\$ 81,759	\$ 243,403

NOTE 9 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 for such potential claims. 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 Academy Charter School
Bronx, New York

We have audited the financial statements of KIPP Academy Charter School (the "School") as of and for the year ended June 30, 2009, and have issued our report thereon dated October 21, 2009. 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be a material weakness. 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 Academy Charter School in a separate letter dated October 21, 2009.

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 is not intended to be and should not be used by anyone other than these specified parties.


LarsonAllen LLP

Blue Bell, Pennsylvania
October 21, 2009