

**KIPP ACADEMY CHARTER SCHOOL**  
**FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

# KIPP ACADEMY CHARTER SCHOOL

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**June 30, 2007**

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# GOLDSTEIN GOLUB KESSLER LLP

Certified Public Accountants and Consultants

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## INDEPENDENT AUDITOR'S REPORT

The Board of Trustees  
KIPP Academy Charter School

We have audited the accompanying statements of financial position of KIPP Academy Charter School (the "School") as of June 30, 2007 and 2006, and the related statements of activities, functional expenses, and cash flows for the years then ended. 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 audits.

We conducted our audits 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 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 Academy Charter School as of June 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years 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 October 22, 2007 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and 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 audits.

*Goldstein Golub Kessler LLP*

**GOLDSTEIN GOLUB KESSLER LLP**

October 22, 2007

# KIPP ACADEMY CHARTER SCHOOL

## STATEMENT OF FINANCIAL POSITION

<b>June 30,</b>	<b>2007</b>	<b>2006</b>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$3,965,850	\$2,828,350
Grants and Contracts Receivable	148,109	577,966
Property and Equipment, net	584,300	730,622
Prepaid Expenses and Other Assets	30,739	69,611
Due from Related Parties	200,057	317,053
<b>Total Assets</b>	<b>\$4,929,055</b>	<b>\$4,523,602</b>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 356,864	\$ 365,603
Capital lease obligation	36,379	59,244
<b>Total liabilities</b>	<b>393,243</b>	<b>424,847</b>
Commitment and Contingency		
Net Assets:		
Unrestricted	4,029,053	3,662,125
Temporarily restricted	506,759	236,630
Permanently restricted		200,000
<b>Total net assets</b>	<b>4,535,812</b>	<b>4,098,755</b>
<b>Total Liabilities and Net Assets</b>	<b>\$4,929,055</b>	<b>\$4,523,602</b>

See Notes to Financial Statements

**KIPP ACADEMY CHARTER SCHOOL**  
**STATEMENT OF ACTIVITIES**

Year ended June 30,	2007				2006			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenue:								
State and local per pupil operating revenue	\$ 2,688,070			\$ 2,688,070	\$2,240,831			\$ 2,240,831
Government grants	202,325			202,325	254,309			254,309
<b>Total operating revenue</b>	<b>2,890,395</b>			<b>2,890,395</b>	<b>2,495,140</b>			<b>2,495,140</b>
Operating expenses:								
Program services:								
School operations	2,624,974			2,624,974	2,616,403			2,616,403
KIPP to College	876,350			876,350	867,432			867,432
KIPP Opportunity Fund	478,169			478,169	117,186			117,186
NYC Expansion Program	207,936			207,936	319,153			319,153
Orchestra special programs	366,392			366,392	167,786			167,786
<b>Total program services</b>	<b>4,553,821</b>			<b>4,553,821</b>	<b>4,087,960</b>			<b>4,087,960</b>
Supporting services - Management and general	545,634			545,634	358,457			358,457
<b>Total operating expenses</b>	<b>5,099,455</b>			<b>5,099,455</b>	<b>4,446,417</b>			<b>4,446,417</b>
School operating deficit	(2,209,060)			(2,209,060)	(1,951,277)			(1,951,277)
Other revenue and expenses:								
Contributions and grants - cash	1,298,857	\$1,248,000		2,546,857	374,232	\$ 1,843,643		2,217,875
Fund-raising expense	(135,463)			(135,463)	(175,932)			(175,932)
Interest and other income, net	114,929			114,929	100,288			100,288
Donated services	3,570			3,570	91,656			91,656
Realized gain on marketable securities	116,224			116,224				
Net assets released from restrictions	1,177,871	(977,871)	\$(200,000)		1,683,876	(1,683,876)		
<b>Change in net assets</b>	<b>366,928</b>	<b>270,129</b>	<b>(200,000)</b>	<b>437,057</b>	<b>122,843</b>	<b>159,767</b>		<b>282,610</b>
Net assets at beginning of year	3,662,125	236,630	200,000	4,098,755	3,539,282	76,863	\$200,000	3,816,145
<b>Net assets at end of year</b>	<b>\$ 4,029,053</b>	<b>\$ 506,759</b>	<b>\$ - 0 -</b>	<b>\$ 4,535,812</b>	<b>\$3,662,125</b>	<b>\$ 236,630</b>	<b>\$200,000</b>	<b>\$ 4,098,755</b>

See Notes to Financial Statements

# KIPP ACADEMY CHARTER SCHOOL

## STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2007

	School Operations	KIPP to College	KIPP Opportunity Fund	KIPP NYC Expansion and Special Projects	Orchestra Special Programs	Total Program Services	Management and General	Fund-raising	Total
Salaries	\$1,565,809	\$ 556,122		\$165,721	\$162,500	\$2,450,152	\$427,757	\$119,980	\$2,997,889
Payroll taxes and employee benefits	338,171	121,645		15,024	51,644	526,484	52,534	8,391	587,409
Equipment and maintenance	15,458	13,554		1,442	5,382	35,836	383	1,429	37,648
Contracted services - other	20,648	16,656		17,012	9,007	63,323	1,808		65,131
Professional fees	1,637					1,637	47,449		49,086
Supplies	9,085	8,285		3,275	9,357	30,002	5,852	2,478	38,332
Instructional materials	21,373	11,602			5,505	38,480			38,480
Telephone and Internet	10,638	12,861				23,499	71	43	23,613
Insurance	68,081	30,850				98,931			98,931
Food	12,560	4,604			898	18,062	137		18,199
Field lessons	226,839	12,664		1,616	80,032	321,151			321,151
Academic program	14,097	12,874			3,988	30,959			30,959
Staff development	64,394	16,199		178	36,183	116,954	9,608	2,718	129,280
Alumni tuition			\$106,969			106,969			106,969
Alumni program		534	17,209			17,743			17,743
Alumni stipend			153,991		406	154,397			154,397
Fees	3,651	2,583			37	6,271		424	6,695
Grant to KIPP New York, Inc. (Note 7)			200,000			200,000			200,000
Bad debts					1,453	1,453			1,453
Depreciation and amortization	252,533	55,317		3,668		311,518	35		311,553
<b>Total operating expenses</b>	<b>2,624,974</b>	<b>876,350</b>	<b>\$478,169</b>	<b>207,936</b>	<b>\$366,392</b>	<b>\$4,553,821</b>	<b>\$545,634</b>	<b>\$135,463</b>	<b>\$5,234,918</b>
Management and general	218,672	318,773		8,189					
Fund-raising	43,877	87,371		4,215					
<b>Subtotal</b>	<b>\$2,887,523</b>	<b>\$1,282,494</b>		<b>\$220,340</b>					
Total number of students	247	404							
Average cost per student	\$ 11,690	\$ 3,174							

See Notes to Financial Statements

# KIPP ACADEMY CHARTER SCHOOL

## STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2006

	School Operations	KIPP to College	KIPP Opportunity Fund	KIPP NYC Expansion and Special Projects	Orchestra Special Programs	Total Program Services	Management and General	Fund-raising	Total
Salaries	\$1,656,992	\$ 531,682		\$153,940		\$2,342,614	\$220,276	\$141,099	\$2,703,989
Retroactive salaries	42,344					42,344			42,344
Payroll taxes and employee benefits	336,426	93,897		11,423		441,746	44,055	28,220	514,021
Equipment	15,984	4,397			\$ 1,179	21,560			21,560
Contracted services - other	50,491	19,446			74,284	144,221	2,823		147,044
Professional fees							85,504		85,504
Building costs				1,880		1,880			1,880
Supplies and instructional materials	28,506	3,361		1,263	3,549	36,679	3,503	5,441	45,623
Telephone and Internet	12,538	3,423				15,961	316		16,277
Insurance	65,468	32,639				98,107			98,107
Postage	4,738	1,907		144	906	7,695	76		7,771
Photocopying/printing	18,234	10,967		14	3,865	33,080			33,080
Food	13,005	1,753			17,767	32,525		88	32,613
Orchestra	13,112				57,119	70,231			70,231
Field lessons	159,331	1,920			2,623	163,874			163,874
Academic program	39,575	5,746				45,321			45,321
Staff development	44,149	15,757		63,624	2,199	125,729	1,171	460	127,360
Alumni program		15,515				15,515			15,515
Alumni tuition		1,381	\$118,286			119,667			119,667
Alumni stipend		105,129	(1,100)			104,029			104,029
Fees	3,540	878				4,418		624	5,042
Depreciation and amortization	111,970	17,634		86,865	4,295	220,764	733		221,497
<b>Total operating expenses</b>	<b>2,616,403</b>	<b>867,432</b>	<b>\$117,186</b>	<b>\$319,153</b>	<b>\$167,786</b>	<b>\$4,087,960</b>	<b>\$358,457</b>	<b>\$175,932</b>	<b>\$4,622,349</b>
Management and general	157,631	200,826							
Fund-raising	75,004	100,928							
Less: retroactive salaries	42,344								
<b>Subtotal</b>	<b>\$2,806,694</b>	<b>\$1,169,186</b>							
Total number of students	249	411							
Average cost per student	\$ 11,272	\$ 2,845							

See Notes to Financial Statements

# KIPP ACADEMY CHARTER SCHOOL

## STATEMENT OF CASH FLOWS

Year ended June 30,	2007	2006
Cash flows from operating activities:		
Change in net assets	\$ 437,057	\$ 282,610
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	311,553	221,497
Donated securities	(99,691)	
Gain on disposal of equipment		(18,493)
Write-off of uncollectable receivables	1,453	
Changes in operating assets and liabilities:		
Decrease (increase) in grants and contracts receivable	528,095	(362,379)
Decrease (increase) in prepaid expenses and other assets	38,872	(25,998)
Decrease (increase) in due from related parties	116,996	(317,053)
(Decrease) increase in accounts payable and accrued expenses	(8,739)	147,953
Decrease in due to related parties		(84,040)
<b>Net cash provided by (used in) operating activities</b>	<b>1,325,596</b>	<b>(155,903)</b>
Cash used in investing activity - purchases of property and equipment	(165,231)	(528,007)
Cash used in financing activity - payments made on capital lease obligations	(22,865)	(53,257)
Net increase (decrease) in cash and cash equivalents	1,137,500	(737,167)
Cash and cash equivalents at beginning of year	2,828,350	3,565,517
Cash and cash equivalents at end of year	\$3,965,850	\$2,828,350
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the year for interest	\$ 2,870	\$ 5,163
<b>Supplemental schedule of noncash investing and financing activities:</b>		
Purchases of equipment financed by leases		\$ 79,979

See Notes to Financial Statements

# KIPP ACADEMY CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS June 30, 2007

### 1. PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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 2007 and 2006, the School operated middle school classes for students in grades five through eight.

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.

The financial statements of the School have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

The financial statements of the School reflect contributions received from the public and other organizations.

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.

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 organization to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by action of the organization.

Permanently restricted net assets contain donor-imposed restrictions that stipulate the resources be maintained permanently but permit the organization to use, or expend, part or all of the income derived from the donated assets for either specified or unspecified purposes.

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.

# KIPP ACADEMY CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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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.

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*.

The School maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The School has not experienced any losses in such accounts.

The School considers all highly liquid instruments purchased with a maturity of six months or less to be cash equivalents. As of June 30, 2006, cash equivalents consisted of United States Treasury Bills.

Property and equipment is recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. Property and 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 property and 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.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates by management. Actual results could differ from those estimates and those differences could be significant.

### **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.

# KIPP ACADEMY CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS

June 30, 2007

The back-office functions for the other KIPP NYC network schools are centralized and handled by KIPP NYC's shared services team, whose salaries are paid by KIPP Academy Charter 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.

**3. PROPERTY AND EQUIPMENT, NET:**

Property and equipment, net, at cost, consists of the following:

June 30,	2007	2006	Estimated Useful Life
Furniture and fixtures	\$ 37,442	\$ 37,442	5 to 7 years
Equipment and other	1,272,825	1,107,594	3 to 7 years
	1,310,267	1,145,036	
Less accumulated depreciation and amortization	725,967	414,414	
	\$ 584,300	\$ 730,622	

Property and equipment includes three copiers acquired under capital leases. As of June 30, 2007 and 2006, the leased copiers are reflected at a cost of \$100,446 and related accumulated depreciation amounted to \$64,523 and \$44,528, respectively. Additionally, during fiscal 2006, three copiers previously acquired under capital leases and reflected at a cost of \$136,853 with related accumulated depreciation of \$118,360, were written off, resulting in the recording of a gain on disposal of equipment amounting to \$18,493, net of cancelation of lease obligation and included in interest and other income in the accompanying statement of activities.

**4. TAX STATUS:**

The Internal Revenue Service has determined that the School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

**5. AGREEMENT FOR SCHOOL FACILITY:**

The School occupies approximately 22,000 square feet of space in its original facility since inception. The School has 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 156<sup>th</sup> 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 and totaled \$1,880 for the year ended June 30, 2006.

# KIPP ACADEMY CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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### 6. 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 middle school, grades five through eight. The activities and related costs directly affecting students or parents fall under this program.

#### KIPP to College

Represents work (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 Opportunity Fund

Represents work (time and materials) directly associated with this program. The goal of the program is to provide financial assistance on a need and merit basis to KIPP alumni in four areas: tuition assistance for high school or college, summer internship stipends for students in high school or college, education support stipends (e.g., books, travel to and from school, sports equipment) and life support stipends for students in high school and college.

#### 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 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, 2007

The significant supporting services are:

Management and General

Represents work (time and materials) that is specifically related to running the nonprogrammatic/back-end operational functions of the School including but not limited to human resources, finance, technology and payroll.

Fund-raising

Represents work (time and materials) associated with the School's fund-raising efforts including but not limited to annual mailings, donor meetings and events.

**7. RESTRICTIONS ON NET ASSET BALANCES:**

Temporarily restricted net assets are restricted as of June 30, 2007 and 2006 for various time and purpose restrictions as follows:

Time and purpose Restrictions	Balance at 6/30/06	New Restricted Grants	Less Expenditures	Balance at 6/30/07
Furniture and fixtures	\$ 48,549		\$ 221	\$ 48,328
KIPP to College		\$ 740,000	740,000	
KIPP Opportunity Fund		10,000	10,000	
Management salaries		73,000	39,569	33,431
Technology improvements	93,282		93,282	
Time restricted	94,799	425,000	94,799	425,000
	<u>\$236,630</u>	<u>\$1,248,000</u>	<u>\$ 977,871</u>	<u>\$506,759</u>

Time and purpose Restrictions	Balance at 6/30/05	New Restricted Grants	Less Expenditures	Balance at 6/30/06
Furniture and fixtures	\$57,065		\$ 8,516	\$ 48,549
KIPP to College		\$ 75,000	75,000	
KIPP Opportunity Fund		12,500	12,500	
KIPP to College Endowment Fund		837,500	837,500	
Orchestra	19,798	113,443	133,241	
Technology improvements		500,000	406,718	93,282
Time restricted		305,200	210,401	94,799
	<u>\$76,863</u>	<u>\$1,843,643</u>	<u>\$1,683,876</u>	<u>\$236,630</u>

# KIPP ACADEMY CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Permanently restricted net assets at June 30, 2006 were restricted in an endowment fund from the Louis Calder Foundation (the "Foundation"). In March 2007, the Foundation approved the School's request to remove the permanent restriction on the endowment fund and to transfer these funds amounting to \$200,000 to KIPP New York, Inc., a related entity by virtue of purpose and commonality of certain board members.

### 8. CAPITAL LEASE OBLIGATION:

The School leases office equipment under capital leases expiring through November 2009. The leases require monthly payments of principal and interest ranging from \$415 to \$1,299 at rates ranging from 5.13% to 8% per annum. Future minimum payments under the leases are as follows:

Year ending June 30,	
2008	\$22,416
2009	13,323
2010	2,845
	<hr/>
	38,584
Less interest portion	2,205
	<hr/>
<b>Capital lease obligation</b>	<b>\$36,379</b>

### 9. LEASE COMMITMENT:

The School leases office equipment under a noncancelable operating lease expiring in December 2008. Future minimum payments under this lease are as follows:

Year ending June 30,	
2008	\$15,600
2009	7,800
	<hr/>
	\$23,400

For the years ended June 30, 2007 and 2006, rent expense incurred in connection with this noncancelable operating lease amounted to approximately \$16,000 and \$8,000, respectively.

### 10. 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.

# KIPP ACADEMY CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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**11. 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 \$128,195 and \$110,850 for the years ended June 30, 2007 and 2006, 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 obligation of the Plan. Such amounts, if any, are not presently determinable.



# GOLDSTEIN GOLUB KESSLER LLP

Certified Public Accountants and Consultants

## **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**

The Board of Trustees  
KIPP Academy Charter School

We have audited the financial statements of KIPP Academy Charter School (the "School") as of and for the year ended June 30, 2007, and have issued our report thereon dated October 22, 2007. 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.

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, but not to provide 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 a combination of control deficiencies, that adversely affects the entity'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 material misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.

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.

Our consideration of 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 internal control that might be 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the accompanying schedule of findings and questioned costs as item 2007-01.

We noted certain matters that we reported to the management of the School in a separate letter dated October 22, 2007.

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.

*Goldstein Golub Kessler LLP*

**GOLDSTEIN GOLUB KESSLER LLP**

October 22, 2007

# KIPP ACADEMY CHARTER SCHOOL

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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### Compliance and Other Matters Findings

#### Section I - Current-Year Findings

##### 2007-01

##### Criteria

Organizations must ensure compliance to all applicable labor laws, including making sure that all their employees are legally authorized to work in the United States, and that employment contracts for unionized teachers and certification documentation are maintained.

##### Condition

During our audit, we noted that certain required documentation, such as the Employment Eligibility Verification Form (Form I-9), were not completed, and teacher certifications documentation and teacher employment contracts were not included in employee personnel files.

##### Cause and effect

This condition can be attributed to limited oversight and lack of familiarity with the administrative requirements pertaining to applicable labor laws and teacher certification requirements.

##### Recommendation

Management should ensure that policies and procedures are implemented requiring all employees to complete the Employment Eligibility Verification Form (Form I-9) no later than the first day of employment at the School. Additionally, all employees should provide original forms of identification (e.g., driver's license, social security card, etc.) to the authorized human resources representative and copies of the identification forms should be maintained in each employee's personnel file. These forms should be updated when there are necessary changes. For existing employees, a Form I-9 should also be completed and included in each individual's personnel files currently missing this employment verification documentation along with copies of the identification documents. Additionally, efforts should be made to obtain copies of teacher certifications and include them in the respective teacher's personnel files. Furthermore, copies of teacher contracts or offer letters should also be maintained in personnel files.

##### Management's response

The School's management agrees and will review all personnel files to determine the required steps to be taken to correct this issue.