

KIPP NEW ORLEANS, INC.
FINANCIAL STATEMENTS
For the Year Ended June 30, 2010

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 3/23/11

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
KIPP New Orleans, Inc.
New Orleans, Louisiana

We have audited the accompanying Statements of Financial Position of KIPP New Orleans, Inc. ("KIPP N.O.") (a nonprofit organization), and the related Statements of Activities, Cash Flows and Functional Expenses as of and for the years ended June 30, 2010 and 2009. These financial statements are the responsibility of the KIPP N.O.'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 our 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 the 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 New Orleans, Inc. as of June 30, 2010 and 2009, and the changes in its net assets and 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 December 21, 2010 on our consideration of KIPP New Orleans, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Statements of Financial Position by School and Statements of Activities by School are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of KIPP New Orleans, Inc. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Rebowe & Company

December 21, 2010

FINANCIAL STATEMENTS

KIPP NEW ORLEANS, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,820,179	\$ 1,870,412
Prepaid expenses	112,412	39,164
Grants receivable	1,091,379	1,652,479
Other receivables	20,000	77,619
Other assets	7,099	31,963
Total Current Assets	<u>3,051,069</u>	<u>3,671,637</u>
Other Assets:		
Deposits	<u>2,455</u>	<u>-</u>
Total Other Assets	<u>2,455</u>	<u>-</u>
Non-Current Assets:		
Property and equipment (net of accumulated depreciation)	<u>555,370</u>	<u>635,691</u>
Total Assets	<u>\$ 3,608,894</u>	<u>\$ 4,307,328</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 786,970	\$ 488,600
Due to KIPP Foundation	<u>82,129</u>	<u>4,436</u>
Total Current Liabilities	<u>869,099</u>	<u>493,036</u>
Non-Current Liabilities:		
Long Term Debt	<u>500,000</u>	<u>-</u>
Total Current Liabilities	<u>500,000</u>	<u>-</u>
Total Liabilities	<u>1,369,099</u>	<u>493,036</u>
Net Assets:		
Unrestricted	2,037,164	3,593,469
Temporarily restricted	<u>202,631</u>	<u>220,823</u>
Total Net Assets	<u>2,239,795</u>	<u>3,814,292</u>
Total Liabilities and Net Assets	<u>\$ 3,608,894</u>	<u>\$ 4,307,328</u>

See accompanying notes to financial statements.

KIPP NEW ORLEANS, INC.
STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
UNRESTRICTED NET ASSETS		
Public Support and Other Revenues		
Local per pupil aid	\$ 5,020,046	\$ 4,196,328
Federal sources	3,924,076	2,402,696
State public school funds	4,238,137	3,164,628
Donations and contributions	1,208,820	1,280,523
Other local sources	154,806	115,865
Other state funds	<u>123,948</u>	<u>353,752</u>
Total Public Support and Other Revenues	14,669,833	11,513,792
Net Assets Released from Restrictions		
Restrictions satisfied by payments	<u>240,414</u>	<u>304,909</u>
Total Support, Revenues and Reclassifications	<u>14,910,247</u>	<u>11,818,701</u>
Expenses		
Program services:		
Instructional	8,780,497	7,325,224
Supporting services:		
Management and general	6,838,791	4,254,250
Non-Instructional services:		
Other services	<u>847,264</u>	<u>662,519</u>
Total Expenses	<u>16,466,552</u>	<u>12,241,993</u>
Other Unrestricted Income (Expense)		
Other	<u>-</u>	<u>267,363</u>
Total Other Unrestricted Income (Expense)	<u>-</u>	<u>267,363</u>
Increase (Decrease) in Unrestricted Net Assets	<u>(1,556,305)</u>	<u>(155,929)</u>
TEMPORARILY RESTRICTED NET ASSETS		
Donations	222,222	104,064
Net assets released from restrictions	<u>(240,414)</u>	<u>(304,909)</u>
Increase (Decrease) in Temporarily Restricted Net Assets	<u>(18,192)</u>	<u>(200,845)</u>
Net assets at beginning of fiscal year	<u>3,814,292</u>	<u>4,171,066</u>
Net assets at end of fiscal year	<u>\$ 2,239,795</u>	<u>\$ 3,814,292</u>

See accompanying notes to financial statements.

KIPP NEW ORLEANS, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash Flows from Operating Activities:		
Increase (decrease) in net assets	\$ (1,574,497)	\$ (356,774)
Depreciation expense	105,644	97,438
Gain on disposition of assets	-	-
(Increase) decrease in operating assets:		
Accounts/grants receivable	618,719	750,202
Prepaid expenses	(73,248)	(24,943)
Other assets	22,409	(13,688)
Increase (decrease) in operating liabilities:		
Accounts payable	298,370	(267,886)
Due to KIPP Foundation	77,693	(69,746)
Net cash provided by operating activities:	<u>(524,910)</u>	<u>114,603</u>
Cash Flows from Investing Activities:		
Purchase of property and equipment	(25,323)	(107,549)
Proceeds from disposition of asset	-	-
Net cash used in investing activities	<u>(25,323)</u>	<u>(107,549)</u>
Cash Flows from Financing Activities:		
Proceeds from debt	500,000	-
Net cash provided in investing activities	<u>500,000</u>	<u>-</u>
Net increase in cash and cash equivalents	(50,233)	7,054
Cash and Cash Equivalents, Beginning of Fiscal Year	<u>1,870,412</u>	<u>1,863,358</u>
Cash and Cash Equivalents, End of Fiscal Year	<u><u>\$ 1,820,179</u></u>	<u><u>\$ 1,870,412</u></u>

See accompanying notes to financial statements.

KIPP NEW ORLEANS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2010

	PROGRAM SERVICES	SUPPORT SERVICES	NON- INSTRUCTIONAL SERVICES	
	Instructional	Management And General	Other Services	Total
Expenses:				
Regular education programs	\$ 7,282,170	\$ -	\$ -	\$ 7,282,170
School administration	-	1,696,163	-	1,696,163
Operation and maintenance of plant services	-	1,128,338	-	1,128,338
Special education programs	971,333	-	-	971,333
Food services	-	-	834,774	834,774
Business services	-	689,206	-	689,206
Student transportation	-	792,017	-	792,017
Central services	-	659,114	-	659,114
Instructional staff services	-	574,478	-	574,478
General administration	-	293,816	-	293,816
Pupil support services	-	911,481	-	911,481
Other special programs	229,977	-	-	229,977
Other instructional programs	297,017	-	-	297,017
Other support services	-	94,178	-	94,178
Community service operations	-	-	12,490	12,490
	<u>\$ 8,780,497</u>	<u>\$ 6,838,791</u>	<u>\$ 847,264</u>	<u>\$ 16,466,552</u>

See accompanying notes to financial statements.

KIPP NEW ORLEANS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2009

	PROGRAM SERVICES	SUPPORT SERVICES	NON- INSTRUCTIONAL SERVICES	
		Management And General	Other Services	
Expenses:	Instructional			Total
Regular education programs	\$ 5,131,772	\$ -	\$ -	\$ 5,131,772
School administration	-	1,401,337	-	1,401,337
Operation and maintenance of plant services	-	987,668	-	987,668
Special education programs	745,375	-	-	745,375
Food services	-	-	607,948	607,948
Business services	-	502,654	-	502,654
Student transportation	-	532,539	-	532,539
Central services	-	596,521	-	596,521
Instructional staff services	480,677	-	-	480,677
General administration	-	233,531	-	233,531
Pupil support services	700,836	-	-	700,836
Other special programs	250,564	-	-	250,564
Other instructional programs	16,000	-	-	16,000
Other support services	-	-	54,571	54,571
	<u>\$ 7,325,224</u>	<u>\$ 4,254,250</u>	<u>\$ 662,519</u>	<u>\$ 12,241,993</u>

See accompanying notes to financial statements.

KIPP NEW ORLEANS, INC.
NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2010 and 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

KIPP New Orleans, Inc. ("KIPP N.O.") was incorporated in the Spring of 2005 for the purpose of operating charter schools in New Orleans, Louisiana. KIPP N.O. was created to provide students with knowledge, skills, and character traits necessary to succeed in competitive high schools, college, and life. The State Board of Elementary and Secondary Education has granted KIPP N.O. six (6) Type 5 charters to operate KIPP Believe College Prep (previously KIPP Phillips Preparatory), KIPP McDonogh 15 School for the Creative Arts, KIPP Central City Academy, KIPP Central City Primary, KIPP New Orleans Leadership Academy and KIPP Renaissance High School. In addition, the KIPP New Orleans School Support Center ("SSC") provides support to each of the schools in the areas of development, operations, finance, academics, recruitment, and planning. All KIPP N.O. schools and the SSC are governed by the KIPP N.O. Board of Directors.

Basis of Accounting

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

Functional Expenses

The cost of program and supporting services has been reported on a functional basis. This requires the allocation of certain costs based on total program costs and estimates made by management.

Income Tax Status

KIPP N.O. is a tax-exempt organization under Internal Revenue Code Section 501 (c) (3) and, as such, is not subject to income tax.

Public Support and Revenue

KIPP N.O. receives its support primarily from the Louisiana State Department of Education and the United States Department of Education.

Irrevocable promises to give and outright contributions are recorded as revenue on the accrual basis as they are received, and allowances are provided for promises to give estimated to be uncollectible. Promises to give and contributions are principally received from corporate, foundation, and individual donors around the United States. Both promises to give and contributions are considered available for unrestricted use unless specifically restricted by donors. Irrevocable promises to give which relate to a subsequent year are recorded as receivables and temporarily restricted net assets in the year the commitment is received.

KIPP NEW ORLEANS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Years Ended June 30, 2010 and 2009

NOTE A-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions whose donor restrictions are met in the same reporting period are reported as unrestricted support. KIPP N.O. uses the direct write-off method of writing off uncollectible receivables.

Contributions of donated noncash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual amounts could differ from those estimates.

Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows, KIPP N.O. considers all unrestricted, highly liquid investments with an initial maturity of less than three months to be cash and cash equivalents.

Basis of Presentation

KIPP N.O. follows the provisions of Statement of Financial Accounting Standards ("SFAS") No. 117, *Financial Statements of Not-for-Profit Organizations*, which establishes external financial reporting for not-for-profit organizations, which includes three basic financial statements and the classification of resources into three separate classes of net assets, as follows:

- Unrestricted - Net assets which are free of donor-imposed restrictions; all revenues, expenses, gains, and losses that are not changes in permanently or temporarily restricted net assets.
- Temporarily Restricted - Net assets whose use by KIPP N.O. is limited by donor-imposed stipulations that either expire by the passage of time or that can be fulfilled or removed by actions of the organization pursuant to such stipulations.

KIPP NEW ORLEANS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Years Ended June 30, 2010 and 2009

NOTE A- SUMMARY OF SIGNIFICANT ACCCOUNTING POLICIES (CONTINUED)

- Permanently Restricted - Net assets whose use by KIPP N.O. is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled and removed by actions of the organization.

Property and Equipment

Property and equipment are capitalized at cost. It is KIPP N.O.'s policy to capitalize expenditures for these items in excess of \$1,000. Lesser amounts are expensed as incurred. Property and equipment are being depreciated over their estimated useful lives using the straight-line method using the following lives:

Furniture, fixtures and equipment	5 - 10 years
Leasehold improvements	10 years

Subsequent Events

Subsequent events have been evaluated though December 21, 2010, the date the financial statements were available to be issued.

Reclassifications

Certain reclassifications have been made to the 2009 financial statements presentation to correspond to the current year's format. Total net assets and changes in net assets are unchanged due to these reclassifications.

NOTE B - CASH AND CASH EQUIVALENTS AND INVESTMENTS

At June 30, 2010 and 2009, cash and cash equivalents consisted of deposits with financial institutions with carrying balances of \$1,820,179 and \$1,870,412, respectively.

At June 30, 2010 and 2009, KIPP N.O. did not hold any investments.

Under State law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or pledged securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties.

At June 30, 2010 and 2009, KIPP N.O.'s deposits (bank balances) totaled approximately \$1.88 million and \$1.68 million, respectively. These deposits are secured from risk by federal deposit insurance under the temporary Transaction Account Guarantee Program. There were no balances as of June 30, 2010 and 2009 that were unsecured or uninsured.

KIPP NEW ORLEANS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Years Ended June 30, 2010 and 2009

NOTE C - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Due to/from other funds at June 30, 2010 were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
KIPP Renaissance High School	School Support Center	\$ 75,000
School Support Center	KIPP Renaissance High School	104,666
School Support Center	KIPP New Orleans Leadership Academy	106,494
School Support Center	KIPP McDonogh 15	38,496
School Support Center	KIPP Believe	29,290
School Support Center	KIPP Central City Academy	25,067
School Support Center	KIPP Central City Primary	21,601
KIPP Central City Academy	KIPP Believe	3,948
KIPP Central City Academy	KIPP Central City Primary	17,344
KIPP Central City Primary	KIPP Central City Academy	<u>21,344</u>
Total		<u>\$ 443,250</u>

The above due to/from other funds were short-term receivables or payables resulting from the normal course of KIPP's operations.

Interfund transfers during the year ended June 30, 2010 were as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
School Support Center	KIPP McDonogh 15	\$ 603,069
School Support Center	KIPP Believe	197,580
School Support Center	KIPP Central City Academy	179,477
School Support Center	KIPP Central City Primary	94,264
School Support Center	KIPP Renaissance High School	30,000
School Support Center	KIPP New Orleans Leadership Academy	71,308
KIPP Believe	School Support Center	100,000
KIPP Central City Academy	School Support Center	100,000
KIPP Central City Primary	School Support Center	<u>275,000</u>
Total		<u>\$ 1,650,068</u>

KIPP NEW ORLEANS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Years Ended June 30, 2010 and 2009

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2010 and 2009 consisted of the following:

	<u>2010</u>	<u>2009</u>
Furniture, fixtures, and equipment	\$263,601	\$ 259,578
Leasehold improvements	570,298	548,998
Less accumulated depreciation	<u>(278,529)</u>	<u>(172,885)</u>
Property and equipment, net	<u>\$555,370</u>	<u>\$ 635,691</u>

Depreciation expense for KIPP N.O. for the years ended June 30, 2010 and 2009 was \$105,645 and \$97,438, respectively. During the years ended June 30, 2010 and 2009, KIPP N.O. acquired \$25,323 and \$107,549 in property and equipment, respectively.

NOTE E - DEBT

On January 22, 2010, KIPP N.O. entered into a loan agreement with Charter Fund, Inc., (the "Fund") a nonprofit corporation doing business as the Charter School Growth Fund, in the amount of \$500,000. Interest on the loan started from the date of funding, which was April 12, 2010. Interest accrues at a rate of 3.25% per annum (based on a 360 day year) and is due in full on November 1, 2017. Principal repayments are due in the amount of \$200,000 on November 1, 2016 and \$300,000 on November 1, 2017.

According to the terms of the loan agreement, \$300,000 of the principle due and any accrued but unpaid interest on such principal, may be forgiven and treated as a grant award if KIPP N.O. achieves certain milestones for Fiscal 2014, as determined by the Fund in its sole and absolute discretion. Any amounts not forgiven shall remain payable (both principle and interest) until maturity.

NOTE F - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2010 and 2009 were available for the following purposes:

	<u>2010</u>	<u>2009</u>
KIPP to College Program	\$ 129,462	\$ 118,903
Student Scholarships	71,500	71,500
Business Planning Grant	-	22,500
Facility repairs and renovations	<u>1,669</u>	<u>7,920</u>
	<u>\$ 202,631</u>	<u>\$ 220,823</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by donors during the year in the amounts of \$240,414 and \$304,909 for the years ended June 30, 2010 and 2009, respectively.

KIPP NEW ORLEANS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Years Ended June 30, 2010 and 2009

NOTE G - RETIREMENT PLANS

Substantially all employees of KIPP N.O. are members of either a statewide retirement system or an employer sponsored 403(b) retirement plan. Employees of McDonogh 15 School for the Creative Arts are members of the Teachers' Retirement System of Louisiana ("TRSL"). Employees of KIPP Believe College Preparatory School and KIPP Central City Academy are participants in the employer sponsored 403(b) plan. Pertinent information relative to each plan follows:

Teachers' Retirement System of Louisiana (TRSL)

Plan Description:

The TRSL consists of three membership plans: Regular Plan, Plan A, and Plan B. The TRSL provides retirement benefits as well as disability and survivor benefits. Ten years of service credit is required to become vested for retirement benefits and five years to become vested for disability and survivor benefits. Benefits are established and amended by state statute. The TRSL issues a publicly available financial report and includes financial statements and required supplementary information for the TRSL. That report may be obtained by writing to the Teachers' Retirement System of Louisiana, Post Office Box 94123, Baton Rouge, Louisiana 70804-9123, or by calling (225) 925-6446.

Funding Policy:

Plan members are required to contribute 8.0 percent, 9.1 percent, and 5.0 percent of their annual covered salary for the Regular Plan, Plan A, and Plan B, respectively. KIPP N.O. is required to contribute at an actuarially determined rate. The current rate is 16.6 percent of annual covered payroll for all three membership plans. Member contributions and employer's contributions for the TRSL are established by state law and rates are established by the Public Retirement Systems' Actuarial Committee. KIPP N.O.'s employer contribution for the TRSL, as provided by state law, is funded by the State of Louisiana through annual appropriations and by remittance from KIPP N.O.. KIPP N.O.'s contributions to the TRSL for the years ending June 30, 2010 and 2009 were \$382,219 and \$434,147, respectively, which were equal to the required contributions for each year.

403(b) Plan

Plan Description:

KIPP Believe College Preparatory School and KIPP Central City Academy have a 403(b) deferred compensation plan covering substantially all employees. Covered employees may elect to contribute a portion of their salaries as allowable. KIPP Believe elected to contribute 5% of covered employees' salaries as contributions. KIPP Believe's contributions were \$314,056 and \$65,460 for the years ended June 30, 2010 and 2009, respectively.

KIPP NEW ORLEANS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Years Ended June 30, 2010 and 2009

School-Based Employees:

All school-based employees are granted ten (10) paid time off (PTO) days at the beginning of each year. These days are to be used in case of illness or any other reason an employee needs a day off. If an employee starts after the beginning of the school year, personal leave/sick days are pro-rated. Unused days will not roll forward at the end of the year (June 30) and may not be redeemed for additional compensation at the end of the year.

Funding Policy:

School Support Center staff work throughout the year. All full time KIPP N.O. New Orleans SSC employees earn a minimum total of eighteen (18) days PTO (a combination of vacation time, sick time, and personal holiday time) per year.

NOTE I - CONTINGENCIES

At June 30, 2010 and 2009, KIPP N.O. was not a defendant or co-defendant in any lawsuits arising from the normal course of operations.

SUPPLEMENTAL INFORMATION

KIPP NEW ORLEANS, INC.
STATEMENTS OF FINANCIAL POSITION BY SCHOOL
June 30, 2010 (with comparative totals for 2009)

	2010						2009
	ASSETS						
	McDonough 15 School for the Creative Arts	Believe College Preparatory School	Central City Academy	Central City Primary	Renaissance High School	New Orleans Leadership Academy	
							Total
Current Assets:							
Cash and cash equivalents	\$ 514,692	\$ (120,257)	\$ 266,186	\$ (71,227)	\$ 35,174	\$ (672)	\$ 1,820,179
Prepaid expenses	31,543	12,724	21,495	31,815	14,469	-	112,412
Grants receivable	271,300	127,580	261,267	234,338	76,444	120,450	1,091,379
Other receivables	-	-	-	-	-	-	20,000
Due from KIPP New Orleans/Schools	-	-	21,292	21,344	75,000	-	325,614
Other assets	-	2,000	1,943	477	-	-	7,099
Total Current Assets	817,535	22,047	572,183	216,747	201,087	119,778	3,051,069
Other Assets:							
Deposits	955	-	1,500	-	-	-	2,455
Total Other Assets	955	-	1,500	-	-	-	2,455
Non-Current Assets:							
Property and equipment (net of accumulated depreciation)	330,279	216,848	-	7,200	-	-	555,370
Total Assets	\$ 1,148,769	\$ 238,895	\$ 573,683	\$ 223,947	\$ 201,087	\$ 119,778	\$ 3,608,894
LIABILITIES AND NET ASSETS							
Current Liabilities:							
Accounts payable and accrued expenses	\$ 250,646	\$ 91,384	\$ 134,888	\$ 147,516	\$ 48,779	\$ 15,924	\$ 786,970
Due to KIPP New Orleans/Schools	38,496	33,238	46,411	38,945	104,666	106,494	-
Due to KIPP Foundation	36,585	18,285	14,180	13,079	-	-	82,129
Total Current Liabilities	325,727	142,907	195,479	199,540	153,445	122,418	869,099
Non-Current Liabilities:							
Long Term Debt	-	-	-	-	-	-	500,000
Total Current Liabilities	-	-	-	-	-	-	500,000
Total Liabilities	325,727	142,907	195,479	199,540	153,445	122,418	1,369,099
Net Assets:							
Unrestricted	821,373	95,988	378,204	24,407	47,642	(2,640)	2,037,164
Temporarily restricted	1,669	-	-	-	-	-	202,631
Total Net Assets	823,042	95,988	378,204	24,407	47,642	(2,640)	2,239,795
Total Liabilities and Net Assets	\$ 1,148,769	\$ 238,895	\$ 573,683	\$ 223,947	\$ 201,087	\$ 119,778	\$ 3,608,894

See accompanying notes to financial statements.

KIPP NEW ORLEANS, INC.
STATEMENTS OF ACTIVITIES BY SCHOOL
FOR THE YEAR ENDED JUNE 30, 2010 (with comparative totals for 2009)

	2010							2009		
	McDonogh 15 School for the Creative Arts	Believe College Preparatory School	Central City Academy	Central City Primary	Renaissance High School	New Orleans Leadership Academy	School Support Center	Interfund Eliminations	Total	Total
UNRESTRICTED NET ASSETS										
Public Support and Other Revenues										
Local per pupil aid	\$ 1,758,429	\$ 1,332,896	\$ 1,149,437	\$ 779,284	\$ -	\$ -	\$ -	\$ -	\$ 5,020,046	\$ 4,196,328
Federal sources	1,262,555	720,456	1,012,067	672,827	126,079	130,092	-	-	3,924,076	2,402,696
State public school funds	1,590,105	1,116,411	938,934	592,687	-	-	-	-	4,238,137	3,164,628
Donations and contributions	23,049	54,813	18,770	36,000	150,000	-	926,188	-	1,208,820	1,280,523
Other local sources	47,988	43,738	4,410	10,751	9	-	47,910	-	154,806	115,865
Other state funds	121,811	-	2,137	-	-	-	-	-	123,948	353,752
Transfers	-	100,000	100,000	275,000	-	-	1,175,698	(1,650,698)	-	-
Total Public Support and Other Revenues	4,803,937	3,368,314	3,225,755	2,366,549	276,088	130,092	2,149,796	(1,650,698)	14,669,833	11,513,792
Net Assets Released from Restrictions										
Restrictions satisfied by payments	6,251	-	-	-	-	-	234,163	-	240,414	304,909
Total Support, Revenues and Reclassifications	4,810,188	3,368,314	3,225,755	2,366,549	276,088	130,092	2,383,959	(1,650,698)	14,910,247	11,818,701
Expenses										
Program services:										
Instructional	3,379,527	2,121,778	1,840,885	1,371,154	57,378	9,775	-	-	8,780,497	7,325,224
Supporting services:										
Management and general	1,850,394	1,391,864	952,490	776,149	140,382	51,370	1,676,142	-	6,838,791	4,254,250
Non-Instructional services:										
Other services	302,394	267,500	152,631	123,774	686	279	-	-	847,264	662,519
Total Expenses	5,532,315	3,781,142	2,946,006	2,271,077	198,446	61,424	1,676,142	-	16,466,552	12,241,993
Other unrestricted income (expense)										
Transfers out	(603,069)	(197,580)	(179,477)	(94,264)	(30,000)	(71,308)	(475,000)	1,650,698	-	-
Other	-	-	-	-	-	-	-	-	-	267,363
Total Other Unrestricted Income (Expense)	(603,069)	(197,580)	(179,477)	(94,264)	(30,000)	(71,308)	(475,000)	1,650,698	-	267,363
Increase/(Decrease) in Unrestricted Net Assets	(1,325,196)	(610,408)	100,272	1,208	47,642	(2,640)	232,817	-	(1,556,302)	(155,929)
TEMPORARILY RESTRICTED NET ASSETS										
Donations	-	-	-	-	-	-	222,222	-	222,222	104,064
Net assets released from restrictions	(6,251)	-	-	-	-	-	(234,163)	-	(240,414)	(304,909)
Increase in Temporarily Restricted Net Assets	(6,251)	-	-	-	-	-	(11,941)	-	(18,192)	(200,845)
Net assets at beginning of fiscal year	2,154,489	706,396	277,932	23,199	-	-	652,276	-	3,814,292	4,171,066
Net assets at end of fiscal year	\$ 823,042	\$ 95,988	\$ 378,204	\$ 24,407	\$ 47,642	\$ (2,640)	\$ 873,152	\$ -	\$ 2,239,795	\$ 3,814,292

See accompanying notes to financial statements.

PERFORMANCE STATISTICAL DATA

REBOWE & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS
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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Board of Directors of
KIPP New Orleans, Inc.
New Orleans, Louisiana

We have performed the procedures included in the *Louisiana Governmental Audit Guide* and enumerated below, which were agreed to by the management of KIPP New Orleans, Inc. ("KIPP N.O.") and the Legislative Auditor, State of Louisiana, solely to assist the users in evaluating management's assertions about the performance and statistical data accompanying the annual *financial statements of KIPP N.O. and to determine whether the specified schedules are free of obvious errors and omissions as provided by the Board of Elementary and Secondary Education (BESE) Bulletin*. The School System is responsible for the performance and statistical data. This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

General Fund Instructional and Support Expenditures and Certain Local Revenue Sources (Schedule K-1)

1. We selected a random sample of 25 transactions and reviewed supporting documentation to determine if the sampled expenditures/revenues are classified correctly and are reported in the proper amounts for each of the following amounts reported on the schedule:
 - Total General Fund Instructional Expenditures,
 - Total General Fund Equipment Expenditures,
 - Total Local Taxation Revenue,
 - Total Local Earnings on Investment in Real Property,
 - Total State Revenue in Lieu of Taxes,
 - Nonpublic Textbook Revenue, and
 - Nonpublic Transportation Revenue.

Education Levels of Public School Staff (Schedule K-2)

2. We reconciled the total number of full-time classroom teachers per the schedule "Experience of Public Principals, Assistant Principals, and Full-time Classroom Teachers" (Schedule K-4) to the combined total number of full-time classroom teachers per this schedule and to school board supporting payroll records as of October 1, 2009.
3. We reconciled the combined total of principals and assistant principals per the schedule "Experience of Public Principals, Assistant Principals, and Full-time Classroom Teachers" (Schedule K-4) to the combined total of principals and assistant principals per this schedule.
4. We obtained a list of principals, assistant principals, and full-time teachers by classification as of October 1, 2009 and as reported on the schedule. We traced a random sample of 25 teachers to the individual's personnel file and determined that the individual's education level was properly classified on the schedule.

Number and Type of Public Schools (Schedule K-3)

5. We obtained a list of schools by type as reported on the schedule. We compared the list to the schools and grade levels as reported on the Title 1 Grants to Local Educational Agencies (CFDA 84.010) application and/or the National School Lunch Program (CFDA 10.555) application.

Experience of Public Principals, Assistant Principals, and Full-time Classroom Teachers (Schedule K-4)

6. We obtained a list of principals, assistant principals, and full-time teachers by classification as of October 1, 2009 and as reported on the schedule and traced the same sample used in procedure 4 to the individual's personnel file and determined that the individual's experience was properly classified on the schedule.

Public Staff Data (Schedule K-5)

7. We obtained a list of all classroom teachers including their base salary, extra compensation, and ROTC or rehired retiree status as well as full-time equivalent as reported on the schedule and traced a random sample of 25 teachers to the individual's personnel file and determined that the individual's salary, extra compensation, and full-time equivalents were properly included on the schedule.
8. We recalculated the average salaries and full-time equivalents reported in the schedule.

Class Size Characteristics (Schedule K-6)

9. We obtained a list of classes by school, school type, and class size as reported on the schedule and reconciled school type classifications to Schedule K-3 data, as obtained in procedure 5. We then traced a random sample of 10 classes to the October 1, 2009 roll books for those classes and determined that the class was properly classified on the schedule.

Louisiana Educational Assessment Program (LEAP) for the 21st Century (Schedule K-7)

10. We obtained test scores as provided by the testing authority and reconciled scores as reported by the testing authority to scores reported in the schedule by the School System.

Integrated Louisiana Educational Assessment Program (iLEAP) (Schedule K-9)

11. We obtained test scores as provided by the testing authority and reconciled the scores as reported by the testing authority to the scores reported in the schedule by the School System.

We noted the following exceptions as a result of applying the above procedures:

Education Levels of Public School Staff (Schedule K-2)

4. We noted five (5) instances where the certification number for a teacher on the PEP report was not valid for the 2009-2010 school year. We also noted three (3) instances in which we were unable to obtain supporting documentation to verify teacher's the education level.

We were not engaged to and did not perform an examination, the objective of which would be the expression of an opinion on management's assertions. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of management of KIPP New Orleans, the Louisiana Department of Education, the Louisiana Legislature, and the Legislative Auditor, State of Louisiana, and is not intended to be and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Rebowe & Company

December 21, 2010

**KIPP NEW ORLEANS, INC.
NEW ORLEANS, LOUISIANA**

Schedule K-1

**General Fund Instructional and Support Expenditures
Certain Local Revenue Sources
For the Year Ended June 30, 2010**

General Fund Instructional and Equipment Expenditures

General Fund Instructional Expenditures:

Teacher and Student Interaction Activities:

Classroom Teacher Salaries	\$ 4,198,960	
Other Instructional Staff Activities	89,481	
Instructional Staff Employee Benefits	1,047,909	
Purchased Professional and Technical Services	19,111	
Instructional Materials and Supplies	343,568	
Less: Instructional Equipment	(35,762)	
Total Teacher and Student Interaction Activities		\$ 5,663,267

Other Instructional Activities		1,894
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Pupil Support Activities	\$ 542,505	
Less: Equipment for Pupil Support Activities	-	
Net Pupil Support Activities		542,505

Instructional Staff Services	\$ 115,554	
Less: Equipment for Instructional Staff Services	-	
Net Instructional Staff Services		115,554

School Administration	\$ 1,485,642	
Less: Equipment for School Administration	(3,280)	
Net School Administration		1,482,362

Total General Fund Expenditures		\$ 7,805,582
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Total General Fund Equipment Expenditures		\$ (39,042)
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Certain Local Revenue Sources:

Note: KIPP New Orleans, Inc. receives local revenues from the Orleans Parish School Board which is passed through the Recovery School District. KIPP does not receive a detailed schedule of the source of these revenues. This section is not applicable to charter schools under the Recovery School District.

KIPP NEW ORLEANS, INC.
NEW ORLEANS, LOUISIANA

Schedule K-2

Education Level of Public Principals, Assistant Principals, and Full-Time Classroom Teachers
As of October 1, 2009

Category	Full-time Classroom Teachers				Principals and Assistant Principals			
	Certificated		Uncertificated		Certificated		Uncertificated	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Less than a Bachelor's Degree	-	-	-	-	-	-	-	-
Bachelor's Degree	45	85%	29	67%	5	100.0%	-	-
Master's Degree	8	15%	13	30%		0.0%	-	-
Master's Degree +30	-	-	1	2%	-	-	-	-
Specialist in Education	-	-	-	-	-	-	-	-
Ph. D. or Ed. D.	-	-	-	-	-	-	-	-
Total	53	100%	43	100%	5	100.0%	-	0.0%

**KIPP NEW ORLEANS, INC.
NEW ORLEANS, LOUISIANA**

Schedule K-3

**Number and Type of Public Schools
For the Year Ended June 30, 2010**

Type	2010
	Number
Elementary	1
Middle/Jr. High	2
Secondary	-
Combination	1
Total	4

Note: Schools opened or closed during the fiscal year are included in this schedule.

KIPP NEW ORLEANS, INC.
NEW ORLEANS, LOUISIANA

Schedule K-4

Experience of Public Principals, Assistant Principals, and Full-Time Classroom Teachers
As of October 1, 2009

	0-1 Yr.	2-3 Yrs.	4-10 Yrs.	11-14 Yrs.	15-19 Yrs.	20-24 Yrs.	25+ Yrs.	Total
Assistant Principals	-	2	-	-	-	-	-	2
Classroom Teachers	23	39	31	2	1	-	-	96
Principals	-	2	1	-	-	-	-	3
Total	23	43	32	2	1	-	-	101

**KIPP NEW ORLEANS, INC.
NEW ORLEANS, LOUISIANA**

Schedule K-5

**Public School Staff Data
For the Year Ended June 30, 2010**

2010	All Classroom Teachers	Classroom Teachers Excluding ROTC And Rehired Retirees
Average Classroom Teachers' Salary Including Extra Compensation	\$ 48,162	\$ 48,162
Average Classroom Teacher's Salary Excluding Extra Compensation	\$ 48,162	\$ 48,162
Number of Teacher Full-time Equivalents (FTEs) used in Computation of Average Salaries	95	95

Note: Figures reported include all sources of funding (i.e. federal, state and local) but exclude employee benefits. Generally, retired teachers rehired to teach receive less compensation than non-retired teachers and ROTC teachers receive more compensation because of a federal supplement. Therefore, these teachers are excluded from the computation in the last column. This schedule excludes day-to-day substitutes and temporary employees.

**KIPP NEW ORLEANS, INC.
NEW ORLEANS, LOUISIANA**

Schedule K-6

**Class Size Characteristics
As of October 1, 2009**

School Type	Class Size Range							
	1 - 20		21 - 26		27 - 33		34+	
	Percent	Number	Percent	Number	Percent	Number	Percent	Number
Elementary	24%	32	38%	51	23%	31	14%	19
Elementary Activity Classes	21%	7	24%	8	36%	12	18%	6
Middle/Jr. High	28%	44	40%	63	8%	12	25%	40
Middle/Jr. High Activity Classes	46%	13	39%	11	-	-	14%	4
High	-	-	-	-	-	-	-	-
High Activity Classes	-	-	-	-	-	-	-	-
Combination	-	-	-	-	-	-	-	-
Combination Activity Classes	-	-	-	-	-	-	-	-

Note: The Board of Elementary and Secondary Education has set specific limits on the maximum size of classes at various grade levels. The maximum enrollment in grades K-3 is 26 students and maximum enrollment in grades 4-12 is 33 students. These limits do not apply to activity classes such as physical education, chorus, band, and other classes without maximum enrollment standards. Therefore, these classes are included only as separate line items.

KIPP NEW ORLEANS, INC.
NEW ORLEANS, LOUISIANA

Schedule K-7

Louisiana Educational Assessment Program (LEAP) for the 21st Century
For the Year Ended June 30, 2010

District Achievement		English				Mathematics				Science				Social Studies			
		2010	2009	2008	2007	2010	2009	2008	2007	2010	2009	2008	2007	2010	2009	2008	2007
Level	Results	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Students																	
Grade 4																	
Advanced		2	2%	-	0%	1	2%	10	19%	7	16%	16	18%	1	1%	2	4%
Mastery		9	10%	7	9%	10	19%	28	51%	16	31%	56	62%	4	4%	8	15%
Basic		44	49%	35	44%	28	51%	8	15%	56	100%	7	8%	41	44%	24	45%
Approaching Basic		25	28%	20	25%	8	15%	1	2%	7	13%	1	1%	42	45%	18	34%
Unsatisfactory		10	11%	18	23%	6	11%	6	11%	5	9%	4	5%	5	5%	1	2%
Total		90	100%	80	100%	53	100%	53	100%	91	100%	91	100%	93	100%	53	100%
District Achievement		English				Mathematics				Science				Social Studies			
Level	Results	2010	2009	2008	2007	2010	2009	2008	2007	2010	2009	2008	2007	2010	2009	2008	2007
Students																	
Grade 8																	
Advanced		6	5%	2	8%	-	0%	3	12%	1	1%	-	0%	3	3%	-	0%
Mastery		24	20%	3	13%	5	21%	3	13%	14	12%	6	25%	22	18%	8	33%
Basic		58	48%	15	62%	8	33%	13	54%	57	48%	12	50%	66	55%	14	59%
Approaching Basic		25	21%	3	13%	7	29%	4	17%	38	32%	5	21%	19	16%	1	4%
Unsatisfactory		7	6%	1	4%	4	17%	1	4%	10	8%	1	4%	10	8%	1	4%
Total		120	100%	24	100%	24	100%	24	100%	120	100%	120	100%	120	100%	24	100%

KIPP NEW ORLEANS, INC.
NEW ORLEANS, LOUISIANA

Schedule K-9

Integrated Louisiana Educational Assessment Program (ILEAP)
For the Years Ended June 30, 2010

District Achievement Level Results	English				Mathematics				Science				Social Studies			
	2009		2008		2009		2008		2009		2008		2009		2008	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Grade 3																
Advanced	1	2%	1	2%	4	8%	2	4%	3	6%	3	6%	1	2%	-	0%
Mastery	14	29%	8	17%	9	19%	7	15%	3	6%	5	10%	5	11%	11	23%
Basic	22	46%	20	42%	22	46%	25	52%	21	44%	23	48%	21	45%	22	46%
Approaching Basic	11	23%	11	23%	9	19%	9	19%	16	32%	19	40%	17	36%	10	21%
Unsatisfactory	-	0%	8	17%	4	8%	5	10%	6	12%	2	4%	3	6%	5	10%
Total	48	100%	48	100%	48	100%	48	100%	48	100%	48	100%	47	100%	48	100%

District Achievement Level Results	English				Mathematics				Science				Social Studies			
	2009		2008		2009		2008		2009		2008		2009		2008	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Grade 5																
Advanced	2	1%	1	1%	3	3%	5	3%	1	1%	4	2%	1	1%	4	2%
Mastery	49	23%	18	10%	17	15%	11	6%	27	13%	7	4%	79	37%	21	11%
Basic	100	47%	85	45%	50	44%	88	47%	113	54%	61	33%	47	41%	107	57%
Approaching Basic	43	20%	51	27%	30	26%	26	12%	54	26%	71	38%	35	31%	29	16%
Unsatisfactory	17	8%	32	17%	14	12%	40	21%	15	7%	44	24%	6	5%	26	14%
Total	211	100%	187	100%	211	100%	187	100%	211	100%	187	100%	211	100%	187	100%

District Achievement Level Results	English				Mathematics				Science				Social Studies			
	2009		2008		2009		2008		2009		2008		2009		2008	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Grade 6																
Advanced	4	2%	5	4%	1	2%	7	5%	4	2%	4	3%	34	15%	13	10%
Mastery	34	15%	15	11%	31	14%	18	14%	35	15%	14	11%	55	24%	28	21%
Basic	135	59%	86	65%	132	58%	69	52%	104	46%	58	43%	96	42%	75	56%
Approaching Basic	43	19%	20	15%	32	14%	25	19%	73	32%	42	32%	33	14%	12	9%
Unsatisfactory	12	5%	7	5%	29	13%	14	10%	12	5%	15	11%	10	4%	5	4%
Total	228	100%	133	100%	227	100%	133	100%	228	100%	133	100%	228	100%	133	100%

District Achievement Level Results	English				Mathematics				Science				Social Studies			
	2009		2008		2009		2008		2009		2008		2009		2008	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Grade 7																
Advanced	9	4%	4	9%	12	10%	3	6%	5	4%	4	9%	13	11%	3	6%
Mastery	27	13%	7	15%	15	12%	11	23%	26	21%	10	21%	46	39%	14	30%
Basic	112	55%	24	51%	75	60%	22	47%	50	41%	22	47%	49	41%	22	47%
Approaching Basic	50	25%	10	21%	14	11%	8	17%	35	28%	8	17%	8	7%	6	13%
Unsatisfactory	5	2%	2	4%	8	6%	3	6%	7	6%	3	6%	2	2%	2	4%
Total	203	100%	47	100%	124	100%	47	100%	123	100%	47	100%	119	100%	47	100%

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Board of Directors of
KIPP New Orleans, Inc.
New Orleans, Louisiana

We have performed the procedures described below, which were agreed to by the management of KIPP New Orleans, Inc. ("KIPP N.O."), the Orleans Parish School Board (OPSB) and the Legislative Auditor, State of Louisiana, solely to assist the users in evaluating management's assertions about the use of Dedicated Millages and to determine whether the specified data is free of obvious errors and omissions as provided by KIPP N.O.. The School System is responsible for documenting the use of Dedicated Millages. This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

1. We obtained a schedule from KIPP N.O. of its expenditures for each purpose for the fiscal year.

Dedicated Millage:

Purpose A - School Books, Materials, and Supplies.

Purpose B - Early Childhood, Discipline, and Dropout Programs.

Purpose C - Employee Salary, Benefits, and Incentives.

Purpose D - Air Conditioning, Asbestos Removal, and Facilities.

2. We traced the expenditures to the General Ledger.

No exceptions were found as a result of applying the above procedures.

We were not engaged to and did not perform an examination, the objective of which would be the expression of an opinion on management's assertions. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of management of KIPP New Orleans, the Louisiana Department of Education, the Louisiana Legislature, and the Legislative Auditor, State of Louisiana, and is not intended to be and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Rebowe & Company

December 21, 2010

**OMB CIRCULAR A-133 COMPLIANCE AND
GOVERNMENT AUDITING STANDARDS REPORTS**

REBOWE & COMPANY

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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*

Board of Directors
KIPP New Orleans, Inc.
New Orleans, Louisiana

We have audited the Statements of Financial Position and the related Statements of Activities, Cash Flows and Functional Expenses of KIPP New Orleans, Inc. ("KIPP N.O."), as of and for the years ended June 30, 2010 and 2009, and the Statement of Functional Expenses for the year ended June 30, 2010, which collectively comprise KIPP N.O.'s basic financial statements, and have issued our report thereon dated December 21, 2010. 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 KIPP N.O.'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 KIPP N.O.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of KIPP N.O.'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 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 the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. However, we consider deficiency 10-01 as described in the accompanying schedule of Findings and Questioned Costs to be a significant deficiency in internal control over financial reporting.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether KIPP N.O.'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 that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of KIPP N.O. in a separate letter dated December 21, 2010.

This report is intended solely for the information and use of management, the Board of Directors, the Legislative Auditor of the State of Louisiana, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Reboue & Company

December 21, 2010

REBOWE & COMPANY

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

INDEPENDENT AUDITOR'S REPORT

Board of Directors
KIPP New Orleans, Inc.
New Orleans, Louisiana

Compliance

We have audited the compliance of KIPP New Orleans, Inc. ("KIPP N.O.") (a nonprofit organization) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of KIPP N.O.'s major federal programs for the year ended June 30, 2010. KIPP N.O.'s major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of KIPP N.O.'s management. Our responsibility is to express an opinion on KIPP N.O.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about KIPP N.O.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of KIPP N.O.'s compliance with those requirements.

In our opinion, KIPP N.O. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as Finding 10-02.

Internal Control Over Compliance

The management of KIPP N.O. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered KIPP N.O.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of KIPP's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above. However, we did identify a deficiency in internal control that we consider to be a significant deficiency which is described in the accompanying Schedule of Findings and Questioned Costs as Finding 10-02.

KIPP N.O.'s response to the finding identified in our audit is described in the accompanying Corrective Action Plan for Current Year Audit Findings and Questioned Costs. We did not audit KIPP N.O.'s response and, accordingly, express no opinion on it.

This report is intended solely for the information of management, the Board of Directors, the Legislative Auditor of the State of Louisiana, and federal awarding agencies and pass-through entities and is not intended to be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Rebowe & Company

December 21, 2010

KIPP NEW ORLEANS, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(CONTINUED)
For the Year Ended June 30, 2010

<u>Federal Grantor/ Program Title/ Pass-Through Grantor</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
<u>U.S. Department of Education:</u>		
<i>Passed-through Louisiana Department of Education:</i>		
Title I Grants to Local Educational Agencies (LEAs)*	84.010	\$ 1,376,660
Title I Grants to Local Educational Agencies (LEAs)* ARRA Funding	84.389	9,845
Title II Improving Teacher Quality State Grants	84.367	173,044
Title IV Safe and Drug-Free Schools and Communities - State Grants	84.186	6,485
Title V Part B - Charter Schools (CSP)	84.282	960,222
Special Education - Grants to States (IDEA, Part B)*	84.027	295,833
Special Education - Grants to States (IDEA, Part B)* ARRA Funding	84.391	137,795
Special Education - Preschool Grants (IDEA Preschool)*	84.173	8,043
Special Education - Preschool Grants (IDEA Preschool)* ARRA Funding	84.392	3,497
Hurricane Education Recovery Act Programs Hurricane Educator Assistance Program (HEAP)	84.938K	64,668
State Stabilization* ARRA Funding	84.394	105,630
LA4 Preschool	99.999	<u>49,688</u>
TOTAL U.S. DEPARTMENT OF EDUCATION		<u>3,191,412</u>

KIPP NEW ORLEANS, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(CONTINUED)
For the Year Ended June 30, 2010

<u>Federal Grantor/ Program Title/ Pass-Through Grantor</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
<u>U.S. Department of Agriculture:</u>		
<i>Passed-through Louisiana Department of Education</i>		
National School Lunch Program*	10.555	\$ <u>732,666</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE		<u>732,666</u>
TOTAL FEDERAL ASSISTANCE		\$ <u>3,924,076</u>

*Identified as a major program.

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

KIPP NEW ORLEANS, INC.
NOTE TO THE SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS
Year Ended June 30, 2010

NOTE A - BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Organization and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

KIPP NEW ORLEANS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2010

A. SUMMARY OF AUDITOR'S RESULTS

- The auditor's report expresses an unqualified opinion on the financial statements of KIPP New Orleans, Inc. ("KIPP N.O.").
- One (1) control deficiency disclosed during the audit of the financial statements is reported in the *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*, identified as Finding 10-01. This condition is considered to be a significant deficiency.
- No instances of noncompliance material to the financial statements of KIPP were disclosed and identified during the audit.
- One (1) significant deficiency relating to the audit of the major federal award programs is reported in the *Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133*. It is not considered to be material weakness. The significant deficiency is identified as Finding 10-02.
- The *Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133* expresses an unqualified opinion on all major federal programs.
- There were no findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- A management letter was issued for the year ended June 30, 2010.
- The programs tested as major programs for the year ended June 30, 2010 were:

<u>Program Title</u>	<u>CFDA No.</u>
Title I Grants to Local Educational Agencies	84.010, 84.389
Child Nutrition Cluster - School Breakfast & Lunch	10.555
Special Education Grants to States (IDEA)	84.027, 84.391, 84.173, 84.392
State Fiscal Stabilization Funds (IDEA)	84.394

- The threshold for distinguishing between Type A and Type B programs was \$300,000.
- KIPP N.O. did not qualify as a low-risk auditee.

KIPP NEW ORLEANS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2010

B. FINDINGS - FINANCIAL STATEMENT AUDIT

Finding 10-01 Segregation of Accounting Duties

Condition:

Based on our observations during the audit, it is our opinion that the accounting department was understaffed. As a result, certain accounting duties and processing of accounting transactions did not occur on a timely basis. Timely financial statements are critical to enable the effective management of KIPP N.O.

As KIPP N.O. has continued to grow in size, and there has not been a proportional increase in the accounting department's staffing. Expanding the accounting department would facilitate the segregation of accounting duties and greatly strengthen KIPP N.O.'s internal controls.

Additionally, during fiscal 2010, there was significant turnover in the accounting department including the Director of Finance.

Criteria:

KIPP N.O. needs a sufficiently staffed accounting department in order to facilitate the segregation of accounting duties, maintain appropriate level of internal control over financial reporting, efficiently and accurately process accounting transactions, and produce accurate financial information on a timely basis.

Effect:

KIPP N.O.'s understaffed accounting department has contributed to the organizations inability to maintain proper segregation of accounting duties.

Cause:

KIPP N.O.'s accounting department was understaffed.

Recommendation:

We recommend that KIPP N.O. hire additional personnel in order to properly staff the accounting department.

Response:

See Management's Corrective Action Plan for their response.

KIPP NEW ORLEANS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2010

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS

Finding 10-02 Time and Effort Documentation in Accordance with OMB Circular A-87

Condition:

KIPP N.O. did not maintain semi-annual certificates or time and effort distribution records on employees whose salaries are funded through the following programs: Title I, Title II, Title IV, Title V part B, and IDEA.

Criteria:

KIPP N.O. operates as a school-wide program and they do not consolidate federal funds. Therefore, an employee who works, in whole or in part on a Federal program or cost objective, must document time and effort in accordance with OMB Circular A-87, Attachment B, paragraph 8, sections 3 through 6.

OMB Circular A-87 States:

- Where employees work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications must be prepared at least semi annually and must be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.
- Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages must be supported by personnel activity reports or equivalent documentation unless a statistical sampling system or other substitute system has been approved by the cognizant Federal agency. The personnel activity reports must reflect an after the fact distribution of the actual activity of each employee, account for the total activity for which each employee is compensated, be prepared at least monthly and must coincide with one or more pay periods, and be signed by the employee. Substitute systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort.

Effect:

KIPP N.O.'s Title I, Title II, Title IV, Title V part B, and IDEA programs are not in compliance with OMB Circular A-87. Non-compliance with OMB Circular A-87 may result in reduced funding for these programs.

KIPP NEW ORLEANS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2010

Cause:

KIPP N.O. does not have policies and procedures in place to properly comply with the requirements of OMB Circular A-87, resulting in their noncompliance.

Recommendation:

We recommend that KIPP N.O. adopt policies and procedures to comply with the requirements of OMB Circular A-87. We suggest creating a certificate to be completed semi-annually by employees whose compensation is funded solely from a single cost objective. For employees whose time is split between multiple cost objectives or programs, we recommend that time and activity reports be maintained throughout the year, preferably for each pay period. This would apply to all employees whose compensation is funded through Title I, Title II, Title IV, Title V part B, and IDEA programs (including ARRA funding).

Response:

See Management's Corrective Action Plan for their response.

KIPP NEW ORLEANS, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
AND QUESTIONED COSTS
For the Year Ended June 30, 2010

**SECTION I - FINDINGS RELATED TO THE FINANCIAL STATEMENTS
COMPLIANCE**

Finding 09-01 Documentation of Expenses

Current Year Status – Resolved.

**SECTION II – FINDINGS AND QUESTIONED COSTS RELATED TO MAJOR
FEDERAL AWARD PROGRAMS**

Finding 09-02 Documentation of Expenditures of Federal Awards

Current Year Status – Resolved.

SECTION III – MANAGEMENT LETTER

N/A

KIPP NEW ORLEANS, INC.
CORRECTIVE ACTION PLAN FOR CURRENT
YEAR AUDIT FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2010

Finding 10-01 Segregation of Accounting Duties

Recommendation:

We recommend that KIPP N.O. hire additional personnel in order to properly staff the accounting department.

Corrective Action:

KIPP N.O. has recently hired a new Chief Financial Officer whose initial tasks include the hiring of additional qualified staff for the accounting and finance department. New positions will include a full time Grants Manager and a full time Accounting Manager. Filling these two positions has the full support of both KIPP N.O. management and the Board. It is the expectation of management that the department will be adequately staffed within 60 days of the issuance of this report. An adequately staffed accounting and finance department will ensure continued timely financial reporting.

Implementation Date:

Immediately.

Contact:

Michael A. Dunn, CPA, Chief Financial Officer - (504) 373-6269

KIPP NEW ORLEANS, INC.
CORRECTIVE ACTION PLAN FOR CURRENT
YEAR AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2010

Finding 10-02 Time and Effort Documentation

Recommendation:

We recommend that KIPP N.O. adopt policies and procedures to comply with the requirements of OMB Circular A-87. We suggest creating a certificate to be completed semi-annually by employees whose compensation is funded solely from a single cost objective. For employees whose time is split between multiple cost objectives or programs, we recommend that time and activity reports be maintained throughout the year, preferably for each pay period. This would apply to all employees whose compensation is funded through Title I, Title II, Title IV, Title V part B, and IDEA programs (including ARRA funding).

Corrective Action:

KIPP N.O. has implemented hand scanning software in each school which serves as a time tracker for all employees. This system, which is also connected to our payroll, time and labor and human resources system (ADP) was put in place to track time and effort of all employees through KIPP N.O. This system allows us the opportunity to allocate employee time to different funding sources as indicated by OMB Circular A-87. We are implementing this system where applicable.

Each January and June, KIPP N.O. will require all staff whose salaries are covered by federal funds to sign time and effort documentation which will indicate what portions of their salaries are covered by what grants. This documentation will certify that the time and effort of all employees is understood by all employees and will indicate that they agree with the breakdown of time. For example, if an employee's salary is partially covered by IDEA and partially by Title I that breakdown will be indicated on the form signed by the employee and manager.

This personnel activity report will be used to document time and effort in accordance with OMB Circular A-87 regulations. This report will be collected semi-annually (January and June) to track the time of all employees who are funded by federal programs.

Implementation Date:

Immediately.

Contact:

Michael A. Dunn, CPA, Chief Financial Officer - (504) 373-6269

KIPP NEW ORLEANS, INC.

MEMORANDUM OF ADVISORY COMMENTS

For the Year Ending June 30, 2010

REBOWE & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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December 21, 2010

Board of Directors
KIPP New Orleans, Inc.
New Orleans, LA

We have audited the combined financial statements of the KIPP New Orleans, Inc. ("KIPP N.O.") for the year ended June 30, 2010 and have issued our report thereon dated December 21, 2010. As part of our audit, we considered KIPP's internal control over financial reporting in order to determine the nature, timing and extent of our auditing procedures for the purpose of expressing an opinion on the basic financial statements and not to provide assurance on the internal control.

However, during our audit we became aware of matters that represent opportunities for strengthening internal control and operating efficiency with relation to KIPP N.O. The memorandum that accompanies this letter summarizes our comments and recommendations regarding these matters.

We will review the status of our findings and recommendations during our next audit engagement. We have already discussed our recommendations with management and have included their corrective action plans. We will be pleased to discuss our recommendations with you in further detail at your convenience, perform any additional study of these matters, or assist you in implementing our recommendations.

Sincerely,

Rebowe & Company

Accounting Software

Observation:

During our audit, we noted that KIPP N.O.'s accounting software is inadequate for its current size and needs. Currently KIPP N.O. uses a separate QuickBooks package for each school and the School Support Center. The result is that multiple sets of accounting data need to be compiled in order to produce complete financial statements. Additionally, QuickBooks is limited in the level of internal control over accounting transactions that can be built into the software. As KIPP N.O. continues to grow it becomes increasingly difficult to produce accurate and timely financial statements using the current software.

Recommendation:

We suggest that KIPP N.O. purchase and implement more sophisticated accounting software that will enable it to account for all transactions accurately and facilitate the preparation of timely financial statements. KIPP N.O. will also be required to provide training for its accounting department and adopt policies and procedures related to the implementation and ongoing operation of the new software.

Corrective Action Plan:

KIPP N.O. acknowledges the need for more adequate accounting software and has begun some initial research on replacement options. With the hiring of the new Chief Financial Officer, Grants Manager and Accounting Manager as the first priority, identifying and implementing a new accounting software package will be the second priority for the accounting department with the expectation that new software will be implemented early in fiscal 2012, if not before.

NEW ORLEANS
SCHOOLS

January 7, 2011
Office of the Legislative Auditor

Re: KIPP New Orleans #7444

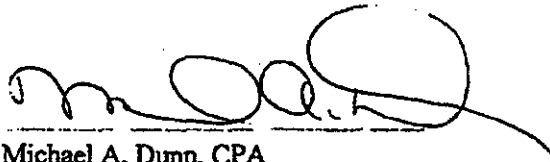
As per your request, we are providing management's corrective plan of action to the following finding on page 19 in the Agreed Upon Procedures in the above referenced report for KIPP New Orleans for the year ended June 30, 2010:

Finding

We noted five (5) instances where the certification number for a teacher on the PEP report was not valid for the 2009-2010 school year. We also noted three (3) instances in which we were unable to obtain supporting documentation to verify teacher's education level.

Corrective Action Plan

In response, KIPP New Orleans Schools will collect transcripts of all teachers going forward to address the lack of documentation to certify education level. Further, during the on-boarding of all new and returning teachers, we will require that a proper check of certification numbers is made. We will check their certification number against what is found online for the October 1 reporting period.



Michael A. Dunn, CPA
Chief Financial Officer