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KIPP NEW ORLEANS, INC.
FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

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 1/14/09

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REBOWE & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

CONSULTANTS

A PROFESSIONAL CORPORATION

3501 N. Causeway Blvd. • Suite 810 • P.O. Box 6952 • Metairie, LA 70009
Phone (504) 837-9116 • Fax (504) 837-0123 • www.rebowe.com

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. (a nonprofit organization), and the related Statements of Activities and Cash Flows as of and for the years ended June 30, 2008 and 2007 and the Statement of Functional Expenses for the year ended June 30, 2008. These financial statements are the responsibility of the Organization's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KIPP New Orleans, Inc. as of June 30, 2008 and 2007, and the changes in 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 12, 2008 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 combining and individual school financial statements 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 12, 2008

KIPP NEW ORLEANS, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2008 and 2007

	2008	2007
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,863,358	\$ 1,271,273
Prepaid expenses	14,221	19,185
Grants receivable	2,148,577	6,000
Other receivables	331,723	895,853
Other assets	18,275	2,207
Total Current Assets	4,376,154	2,194,518
Non-Current Assets:		
Property and equipment (net of accumulated depreciation)	625,580	286,504
Total Assets	\$ 5,001,734	\$ 2,481,022
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 756,486	\$ 562,847
Due to KIPP Foundation	74,182	19,783
Total Current Liabilities	830,668	582,630
Total Liabilities	830,668	582,630
Net Assets:		
Unrestricted	3,749,399	1,675,342
Temporarily restricted	421,667	223,050
Total Net Assets	4,171,066	1,898,392
Total Liabilities and Net Assets	\$ 5,001,734	\$ 2,481,022

See accompanying notes to financial statements.

KIPP NEW ORLEANS, INC.
STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2008 and 2007

	2008	2007
UNRESTRICTED NET ASSETS		
Public Support Revenues and Other Support		
Local per pupil aid	\$ 3,173,722	\$ 1,249,009
Federal sources	2,468,926	1,903,295
State public school funds	2,179,339	1,402,289
Donations and contributions	1,194,024	1,429,905
Other local sources	327,127	153,249
Other state funds	218,428	173,286
Total Public Support and Other Revenues	9,561,566	6,311,033
Net Assets Released from Restrictions		
Restrictions satisfied by payments	189,551	227,190
Total Support, Revenues and Reclassifications	9,751,117	6,538,223
Expenses		
Program services:		
Instructional	4,211,143	3,921,076
Supporting services:		
Management and general	3,504,989	1,456,909
Total Expenses	7,716,132	5,377,985
Other Unrestricted Income (Expense)		
Other	39,072	12,461
Total Other Unrestricted Income (Expense)	39,072	12,461
Increase in Unrestricted Net Assets	2,074,057	1,172,699
TEMPORARILY RESTRICTED NET ASSETS		
Donations	388,168	450,240
Net assets released from restrictions	(189,551)	(227,190)
Increase in Temporarily Restricted Net Assets	198,617	223,050
Net assets at beginning of fiscal year	1,898,392	502,643
Net assets at end of fiscal year	\$ 4,171,066	\$ 1,898,392

See accompanying notes to financial statements.

KIPP NEW ORLEANS, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash Flows from Operating Activities:		
Increase in net assets	\$ 2,272,674	\$ 1,395,749
Depreciation expense	61,005	14,894
Gain on disposition of assets	(452)	-
(Increase) decrease in operating assets:		
Accounts/grants receivable	(1,578,447)	(631,721)
Prepaid expenses	4,964	(5,120)
Other assets	(16,068)	(245)
Increase in operating liabilities:		
Accounts payable	193,639	512,952
Due to KIPP Foundation	54,399	19,783
	<u>991,714</u>	<u>1,306,292</u>
Cash Flows from Investing Activities:		
Purchase of property and equipment	(408,671)	(301,398)
Proceeds from disposition of asset	9,042	-
	<u>(399,629)</u>	<u>(301,398)</u>
Net cash used in investing activities		
	<u>592,085</u>	<u>1,004,894</u>
Net increase in cash and cash equivalents		
	<u>1,271,273</u>	<u>266,379</u>
Cash and Cash Equivalents, Beginning of Fiscal Year		
	<u>\$ 1,863,358</u>	<u>\$ 1,271,273</u>
Cash and Cash Equivalents, End of Fiscal Year		

See accompanying notes to financial statements.

KIPP NEW ORLEANS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2008

	<u>PROGRAM SERVICES</u>	<u>SUPPORT SERVICES</u>	<u>Total</u>
	<u>Instructional</u>	<u>Management And General</u>	
Expenses:			
Regular education programs	\$ 2,945,184	\$ -	\$ 2,945,184
School administration	-	903,097	903,097
Operation and maintenance of plant services	-	576,531	576,531
Special education programs	481,560	-	481,560
Food services	-	459,661	459,661
Business services	-	436,364	436,364
Student transportation	-	405,423	405,423
Central services	-	370,263	370,263
Instructional staff services	304,807	-	304,807
General administration	-	291,658	291,658
Pupil support services	220,193	-	220,193
Other special programs	196,139	-	196,139
Other instructional programs	63,260	-	63,260
Community service operations	-	61,992	61,992
	<u>\$ 4,211,143</u>	<u>\$ 3,504,989</u>	<u>\$ 7,716,132</u>

See accompanying notes to financial statements.

KIPP NEW ORLEANS, INC.
NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2008 and 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

KIPP New Orleans, Inc. ("KIPP") was incorporated in the Spring of 2005 for the purpose of operating charter schools in New Orleans, Louisiana. KIPP 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 four (4) 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, and KIPP Central City Primary. 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 schools and the SSC are governed by the KIPP 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 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 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. Contributions whose donor restrictions are met in the same reporting period are reported as

KIPP NEW ORLEANS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Years Ended June 30, 2008 and 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

unrestricted support. KIPP 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 considers all unrestricted, highly liquid investments with an initial maturity of less than three months as cash and cash equivalents.

Basis of Presentation

KIPP 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 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.
- Permanently Restricted - Net assets whose use by KIPP 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.

KIPP NEW ORLEANS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Years Ended June 30, 2008 and 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Property and equipment are capitalized at cost. It is KIPP'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:

Transportation equipment	5 years
Furniture and fixtures	5 - 7 years
Machinery and equipment	5 - 10 years
Leasehold improvements	10 years

Reclassifications

Certain reclassifications have been made to the 2007 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, 2008 and 2007, cash and cash equivalents consisted of deposits with financial institutions with carrying balances of \$1,863,358 and \$1,271,273, respectively.

At June 30, 2008 and 2007, KIPP 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, 2008 and 2007, KIPP's deposits (bank balances) totaled \$176,675 and \$1,399,381, respectively. These deposits are secured from risk by \$100,000 of federal deposit insurance. The remaining balances of \$76,765 and \$1,299,831 as of June 30, 2008 and 2007, respectively, were unsecured and uninsured.

On October 3, 2008, the Emergency Economic Stabilization Act of 2008 (H.R. 1424) was enacted. From the date of enactment of the bill until December 31, 2009, the amount of federal deposit insurance increased from \$100,000 to \$250,000.

KIPP NEW ORLEANS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Years Ended June 30, 2008 and 2007

NOTE C - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Due to/from other funds at June 30, 2008 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
KIPP Believe	School Support Center	\$ 8,284
KIPP Believe	KIPP Central City Academy	14,313
KIPP McDonogh 15	KIPP Believe	48,531
KIPP McDonogh 15	School Support Center	34,472
KIPP McDonogh 15	KIPP Central City Academy	26,511
School Support Center	KIPP McDonogh 15	129,330
School Support Center	KIPP Believe	58,727
School Support Center	KIPP Central City Academy	79,571
School Support Center	KIPP Central City Primary	7,802
KIPP Central City Academy	KIPP Believe	8,625
KIPP Central City Academy	KIPP Central City Primary	<u>95</u>
 Total		 <u>\$ 416,261</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, 2008 were as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
School Support Center	KIPP McDonogh 15	\$ 342,297
School Support Center	KIPP Believe	148,896
School Support Center	KIPP Central City Academy	98,230
KIPP McDonogh 15	KIPP Central City Academy	78,133
KIPP McDonogh 15	KIPP Believe	26,285
KIPP McDonogh 15	KIPP McDonogh 15	44,194
KIPP Believe	KIPP Believe	15,886
KIPP Central City Academy	KIPP Central City Academy	<u>2,741</u>
 Total		 <u>\$ 756,662</u>

KIPP NEW ORLEANS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Years Ended June 30, 2008 and 2007

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment at June 30th consists of the following:

	<u>2008</u>	<u>2007</u>
Furniture, fixtures, and equipment	\$243,339	\$ 35,533
Leasehold improvements	457,688	265,865
Less accumulated depreciation	(75,447)	(14,894)
Property and equipment, net	<u>\$625,580</u>	<u>\$ 286,504</u>

Depreciation expense for KIPP for the years ended June 30, 2008 and 2007 was \$61,005 and \$14,894, respectively.

During the years ended June 30, 2008 and 2007, KIPP acquired \$408,671 and \$301,398 in property and equipment, respectively.

NOTE E - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2008 and 2007 are available for the following purposes:

	<u>2008</u>	<u>2007</u>
School supplies, equipment, and support	\$ -	\$ 38,214
Board and support services	-	184,836
KIPP to College Program	333,333	-
Student Scholarships	65,000	-
Facility repairs and renovations	23,334	-
	<u>\$ 421,667</u>	<u>\$ 223,050</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 \$189,551 and \$227,190 for the years ended June 30, 2008 and 2007, respectively.

NOTE F - RETIREMENT PLANS

Substantially all employees of KIPP 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. 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:

KIPP NEW ORLEANS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Years Ended June 30, 2008 and 2007

NOTE F - RETIREMENT SYSTEMS (CONTINUED)

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 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'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. KIPP's contributions to the TRSL for the years ending June 30, 2008 and 2007 were \$380,358 and \$314,221, 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 \$31,025 and \$3,253 for the years ended June 30, 2008 and 2007, respectively.

KIPP NEW ORLEANS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Years Ended June 30, 2008 and 2007

NOTE G - COMPENSATED ABSENCES

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 30th) and may not be redeemed for additional compensation at the end of the year.

Funding Policy:

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

NOTE H - CONTINGENCIES

At June 30, 2008 and 2007, KIPP was not a defendant or co-defendant in any lawsuits arising from the normal course of operations.

NOTE I - SUBSEQUENT EVENTS

Subsequent to June 30, 2008, the State Board of Elementary and Secondary Education approved KIPP for two (2) new Type 5 charter schools. KIPP Renaissance High School will be designed to enroll approximately 600 students at full capacity ranging in grades 9th through 12th. The anticipated first year budget for KIPP Renaissance High School is approximately \$2.5 million in revenues and \$2.4 million in expenditures. KIPP K-8 Charter School (legal name to be determined) will be designed to enroll approximately 800 students ranging in grades kindergarten through 8th. The anticipated first year budget for KIPP K-8 Charter School is approximately \$2.6 million in revenues and \$2.3 million in expenditures. Both schools are planned to open during the Summer of 2010.

Beginning in fiscal year 2009, KIPP will formalize its ongoing efforts to support alumni and launch the KIPP to College program with its own full-time staff. The KIPP to College program is intended to provide support to alumni of KIPP New Orleans schools to ensure that they can maintain and build upon the knowledge and skills they developed at KIPP New Orleans middle schools. A comprehensive advocacy and support program, KIPP to College provides academic and personal support, high school and college placement, counseling, internship opportunities and career services, and social and cultural enrichment activities.

SUPPLEMENTAL INFORMATION

KIPP NEW ORLEANS, INC.
STATEMENTS OF FINANCIAL POSITION BY SCHOOL
June 30, 2008 and 2007

	2008						2007
	ASSETS						
	McDonogh 15 School for the Creative Arts	Believe College Preparatory School	Central City Academy	Central City Primary	School Support Center	Interfund Eliminations	Total
Current Assets:							
Cash and cash equivalents	\$ 791,648	\$ 443,688	\$ 182,324	\$ 784	\$ 444,914	\$ -	\$ 1,271,273
Prepaid expenses	6,515	3,241	2,505	-	1,960	-	19,185
Grants receivable	1,434,923	522,433	191,221	-	-	-	2,148,577
Other receivables	77,450	252,042	-	-	2,231	-	331,723
Due from KIPP New Orleans/Schools	109,514	22,597	8,720	-	275,430	(416,261)	895,853
Other assets	18,275	-	-	-	-	-	-
Total Current Assets	2,438,325	1,244,001	384,770	784	724,535	(416,261)	4,376,154
Non-Current Assets:							
Property and equipment (net of accumulated depreciation)	428,628	195,073	-	-	1,879	-	625,580
Total Assets	\$ 2,866,953	\$ 1,439,074	\$ 384,770	\$ 784	\$ 726,414	\$ (416,261)	\$ 5,001,734
	LIABILITIES AND NET ASSETS						
Current Liabilities:							
Accounts payable and accrued expenses	\$ 494,516	\$ 140,146	\$ 57,732	\$ -	\$ 64,092	\$ -	\$ 756,486
Due to KIPP New Orleans/Schools	129,331	115,883	120,395	7,896	42,756	(416,261)	-
Due to KIPP Foundation	38,250	12,749	6,915	-	16,268	-	74,182
Total Current Liabilities	662,097	268,778	185,042	7,896	123,116	(416,261)	830,668
Net Assets:							
Unrestricted	2,181,522	1,170,296	199,728	(7,112)	204,965	-	3,749,399
Temporarily restricted	23,334	-	-	-	398,333	-	421,667
Total Net Assets	2,204,856	1,170,296	199,728	(7,112)	603,298	-	4,171,066
Total Liabilities and Net Assets	\$ 2,866,953	\$ 1,439,074	\$ 384,770	\$ 784	\$ 726,414	\$ (416,261)	\$ 5,001,734

See accompanying notes to financial statements.

KIPP NEW ORLEANS, INC.
STATEMENTS OF ACTIVITIES BY SCHOOL
June 30, 2008 and 2007

	2008					2007		
	McDonogh 15 School for the Creative Arts	Believe College Preparatory School	Central City Academy	Central City Primary	School Support Center	Interfund Eliminations	Total	Total
UNRESTRICTED NET ASSETS								
Public Support and Other Revenues								
Local per pupil aid	\$ 2,015,062	\$ 786,568	\$ 372,092	\$ -	\$ -	\$ -	\$ 3,173,722	\$ 1,249,069
Federal sources	1,516,464	700,113	252,349	-	-	-	2,468,926	1,903,295
State public school funds	1,343,849	546,069	289,421	-	-	-	2,179,339	1,402,289
Donations and contributions	440,276	256,578	315,040	-	182,130	-	1,194,024	1,429,905
Other local sources	259,653	39,551	24,233	-	3,690	-	327,127	153,249
Other state funds	162,136	40,062	16,230	-	-	-	218,428	173,286
Transfers	148,612	15,886	2,741	-	589,423	(756,662)	-	-
Total Public Support and Other Revenues	5,886,052	2,384,827	1,272,106	-	775,243	(756,662)	9,561,566	6,311,033
Net Assets Released from Restrictions								
Restrictions satisfied by payments	38,214	-	-	-	151,337	-	189,551	227,190
Total support, revenues and reclassifications	5,924,266	2,384,827	1,272,106	-	926,580	(756,662)	9,751,117	6,538,223
Expenses								
Program services:								
Instructional	2,677,870	1,050,723	541,028	1,513	44,427	(104,418)	4,211,143	3,921,076
Supporting services:								
Management and general	2,008,522	910,094	553,676	5,599	679,342	(652,244)	3,504,989	1,456,909
Total Expenses	4,686,392	1,960,817	1,094,704	7,112	723,769	(756,662)	7,716,132	5,377,985
Other unrestricted income (expense)								
Other	17,005	14,933	4,980	-	2,154	-	39,072	12,461
Total other unrestricted income (expense)	17,005	14,933	4,980	-	2,154	-	39,072	12,461
Increase/(decrease) in unrestricted net assets	1,254,879	438,943	182,382	(7,112)	204,965	-	2,074,057	1,172,699
TEMPORARILY RESTRICTED NET ASSETS								
Donations	23,334	-	-	-	364,834	-	388,168	450,240
Net assets released from restrictions	(38,214)	-	-	-	(151,337)	-	(189,551)	(227,190)
Increase in temporarily restricted net assets	(14,880)	-	-	-	213,497	-	198,617	223,050
Net assets at beginning of fiscal year	964,857	731,353	17,346	-	184,836	-	1,898,392	502,643
Net assets at end of fiscal year	\$ 2,204,856	\$ 1,170,296	\$ 199,728	\$ (7,112)	\$ 603,298	\$ -	\$ 4,171,066	\$ 1,898,392

See accompanying notes to financial statements.

PERFORMANCE STATISTICAL DATA

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3501 N. Causeway Blvd. • Suite 810 • P.O. Box 6952 • Metairie, LA 70009
Phone (504) 837-9116 • Fax (504) 837-0123 • www.rebowe.com

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") 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 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, 2007.
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, 2007 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, 2007 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, 2007 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.

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 12, 2008

**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, 2008**

General Fund Instructional and Equipment Expenditures

Teacher and Student Interaction Activities	
Classroom Teacher Salaries	\$ 1,453,194
Other Instructional Staff Activities	71,495
Employee Benefits	469,342
Purchased Professional and Technical Services	93,686
Instructional Materials and Supplies	164,236
Less: Instructional Equipment	(36,451)
Total Teacher and Student Interaction Activities	<u>\$ 2,215,502</u>
Other Instructional Activities	<u>\$ 18,316</u>
Pupil Support Activities	<u>\$ 210,418</u>
Less: Equipment for Pupil Support Activities	-
Net Pupil Support Activities	<u>\$ 210,418</u>
Instructional Staff Services	<u>\$ 116,252</u>
Less: Equipment for Instructional Staff Services	-
Net Instructional Staff Services	<u>\$ 116,252</u>
School Administration	<u>\$ 55,292</u>
Less: Equipment for School Administration	-
Net School Administration	<u>\$ 55,292</u>
Total General Fund Expenditures	<u>\$ 2,615,780</u>
Total General Fund Equipment Expenditures	<u>\$ 36,451</u>

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, 2007**

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	25	78%	9.5	61%	3	75.0%	-	-
Master's Degree	6	19%	4	26%	1	25.0%	2	100%
Master's Degree +30	-	-	2	13%	-	-	-	-
Specialist in Education	-	-	-	-	-	-	-	-
Ph. D. or Ed. D.	1	3%	-	-	-	-	-	-
Total	32	100%	15.5	100%	4	100.0%	2	100%

**Number and Type of Public Schools
For the Year Ended June 30, 2008**

Type	2008
	Number
Elementary	
Middle/Jr. High	2
Secondary	
Combination	1
Total	3

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, 2007**

	0-1 Yr.	2-3 Yrs.	4-10 Yrs.	11-14 Yrs.	15-19 Yrs.	20-24 Yrs.	25+ Yrs.	Total
Assistant Principals	-	1	2	-	-	-	-	3
Classroom Teachers	7.5	19	18	1	-	2	-	47.5
Principals	1	-	1	-	1	-	-	3
Total	8.5	20	21	1	1	2	-	53.5

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

Schedule K-5

**Public School Staff Data
For the Year Ended June 30, 2008**

2007	All Classroom Teachers	Classroom Teachers Excluding ROTC And Rehired Retirees
Average Classroom Teachers' Salary Including Extra Compensation	\$44,645	\$44,645
Average Classroom Teacher's Salary Excluding Extra Compensation	\$44,619	\$44,619
Number of Teacher Full-time Equivalent (FTEs) used in Computation of Average Salaries	48	48

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, 2007**

School Type	Class Size Range							
	1 - 20		21 - 26		27 - 33		34+	
	Percent	Number	Percent	Number	Percent	Number	Percent	Number
Elementary	-	-	-	-	-	-	-	-
Elementary Activity Classes	-	-	-	-	-	-	-	-
Middle/Jr. High	-	-	12%	7	88%	50	-	-
Middle/Jr. High Activity Classes	-	-	13%	2	87%	13	-	-
High	-	-	-	-	-	-	-	-
High Activity Classes	-	-	-	-	-	-	-	-
Combination	38%	43	51%	58	11%	12	-	-
Combination Activity Classes	50%	13	38%	10	4%	1	8%	2

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, 2008

District Achievement Level Results	English						Mathematics						Science						Social Studies											
	2008		2007		2008		2007		2008		2007		2008		2007		2008		2007		2008		2007							
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent						
Grade 4																														
Advanced	1	1%	1	2%	4	4%	2	4%	2	4%	2	2%	2	2%	1	2%	1	1%	1	1%	1	1%	1	1%	2	4%	2	4%	2	4%
Mastery	12	11%	9	20%	11	10%	7	16%	8	16%	8	7%	8	7%	5	12%	6	6%	6	6%	5	12%	6	6%	7	16%	7	16%	7	16%
Basic	48	44%	15	33%	57	52%	18	40%	31	40%	31	29%	31	29%	16	37%	42	39%	42	39%	17	40%	31	29%	29	63%	29	63%	29	63%
Approaching Basic	31	28%	17	38%	22	20%	15	33%	22	20%	45	41%	45	41%	17	40%	31	29%	31	29%	4	9%	28	25%	5	11%	5	11%	5	11%
Unsatisfactory	17	16%	3	7%	15	14%	3	7%	15	14%	23	21%	23	21%	4	9%	28	25%	4	4%	4	9%	28	25%	2	4%	2	4%	2	4%
Total	109	100%	45	100%	109	100%	45	100%	109	100%	109	100%	109	100%	43	100%	108	100%	108	100%	43	100%	108	100%	45	100%	45	100%	45	100%
Grade 8																														
Advanced	2	8%	-	0%	-	0%	3	12%	-	0%	-	0%	-	0%	-	0%	-	0%	-	0%	-	0%	-	0%	-	0%	-	0%	-	0%
Mastery	3	13%	5	21%	1	3%	3	13%	6	25%	6	8%	6	8%	2	8%	8	33%	8	33%	2	8%	8	33%	1	4%	1	4%	1	4%
Basic	15	62%	8	33%	14	48%	13	54%	12	54%	12	54%	12	54%	7	29%	14	59%	14	59%	7	29%	14	59%	9	38%	9	38%	9	38%
Approaching Basic	3	13%	7	29%	8	28%	4	17%	5	21%	5	42%	5	42%	10	42%	1	4%	1	4%	10	42%	1	4%	6	25%	6	25%	6	25%
Unsatisfactory	1	4%	4	17%	6	21%	1	4%	1	4%	1	4%	1	4%	5	21%	1	4%	1	4%	5	21%	1	4%	8	33%	8	33%	8	33%
Total	24	100%	24	100%	29	100%	24	100%	29	100%	24	100%	24	100%	24	100%	24	100%	24	100%	24	100%	24	100%	24	100%	24	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, 2008*

District Achievement Level Results	English				Mathematics				Science				Social Studies				
	2008		2007		2008		2007		2008		2007		2008		2007		
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	
Grade 3																	
Advanced	1	2%	2	4%	3	6%	3	6%	1	2%	2	4%	1	2%	1	2%	2%
Mastery	6	12%	6	12%	3	6%	3	6%	4	8%	4	8%	7	14%	5	10%	10%
Basic	19	38%	16	33%	22	44%	26	53%	22	44%	18	37%	25	50%	23	47%	47%
Approaching Basic	17	34%	18	37%	16	32%	11	23%	12	24%	18	37%	13	26%	14	29%	29%
Unsatisfactory	7	14%	7	14%	6	12%	5	10%	11	22%	9	18%	4	8%	6	12%	12%
Total	50	100%	49	100%	50	100%	49	100%	50	100%	49	100%	50	100%	49	100%	100%

District Achievement Level Results	English				Mathematics				Science				Social Studies				
	2008		2007		2008		2007		2008		2007		2008		2007		
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	
Grade 5																	
Advanced	4	3%	3	2%	2	1%	5	4%	1	1%	2	1%	5	3%	3	2%	2%
Mastery	19	12%	12	9%	16	10%	16	9%	15	10%	4	3%	24	16%	16	11%	11%
Basic	68	44%	69	49%	66	43%	58	41%	53	34%	31	22%	77	50%	66	48%	48%
Approaching Basic	40	26%	33	24%	41	27%	31	22%	53	34%	51	36%	28	18%	31	22%	22%
Unsatisfactory	23	15%	23	16%	29	19%	34	24%	32	21%	52	38%	20	13%	24	17%	17%
Total	154	100%	140	100%	154	100%	140	100%	154	100%	140	100%	154	100%	140	100%	100%

District Achievement Level Results	English				Mathematics				Science				Social Studies				
	2008		2007		2008		2007		2008		2007		2008		2007		
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	
Grade 6																	
Advanced	3	2%	-	0%	6	5%	-	0%	1	1%	-	0%	19	14%	-	0%	0%
Mastery	20	15%	1	2%	16	12%	5	11%	12	9%	5	11%	27	20%	3	6%	6%
Basic	88	67%	25	53%	87	65%	28	59%	57	42%	20	42%	67	50%	19	41%	41%
Approaching Basic	15	11%	13	28%	18	14%	6	13%	45	34%	17	36%	15	12%	15	32%	32%
Unsatisfactory	7	5%	8	17%	6	4%	8	17%	18	14%	5	11%	5	4%	10	21%	21%
Total	133	100%	47	100%	133	100%	47	100%	133	100%	47	100%	133	100%	47	100%	100%

District Achievement Level Results	English				Mathematics				Science				Social Studies				
	2008		2007		2008		2007		2008		2007		2008		2007		
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	
Grade 7																	
Advanced	1	2%	-	0%	-	0%	2	7%	1	2%	-	0%	2	4%	-	0%	0%
Mastery	2	4%	2	7%	1	2%	4	14%	6	13%	7	25%	11	25%	4	14%	14%
Basic	18	40%	17	61%	28	63%	13	47%	28	63%	13	46%	28	63%	15	54%	54%
Approaching Basic	21	47%	2	7%	10	22%	3	11%	9	20%	5	18%	2	4%	4	14%	14%
Unsatisfactory	3	7%	7	25%	6	13%	6	21%	1	2%	3	11%	2	4%	5	18%	18%
Total	45	100%	28	100%	45	100%	28	100%	45	100%	28	100%	45	100%	28	100%	100%

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

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Phone (504) 837-9116 • Fax (504) 837-0123 • www.rebowe.com

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 and Cash Flows of KIPP New Orleans, Inc. ("KIPP"), as of and for the years ended June 30, 2008 and 2007, and the Statement of Functional Expenses for the year ended June 30, 2008, which collectively comprise KIPP's basic financial statements, and have issued our report thereon dated December 12, 2008. 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's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the KIPP's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of KIPP's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects KIPP's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of KIPP's financial statements that is more than inconsequential will not be prevented or detected by KIPP's internal control.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether KIPP'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 several instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs.

KIPP's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit KIPP's response and, accordingly, we express no opinion on it.

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.

Rebowe & Company

December 12, 2008

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of KIPP New Orleans, Inc. ("KIPP") (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 are applicable to each of its major federal programs for the year ended June 30, 2008. KIPP'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's management. Our responsibility is to express an opinion on KIPP'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'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's compliance with those requirements.

In our opinion, KIPP 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, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs.

Internal Control Over Compliance

The management of KIPP 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'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 *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. None of the deficiencies in internal control over compliance are considered to be material weaknesses.

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 that might be significant deficiencies or material weaknesses.

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.

KIPP's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs, *Managements Corrective Action Plan*. We did not audit KIPP's responses and, accordingly, express no opinion on them.

Reboue & Company

December 12, 2008

KIPP NEW ORLEANS, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2008

<u>Federal Grantor/ Program Title/ Pass-Through Grantor</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>	<u>Revenues</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	\$ 677,757	\$ 677,757
Title II Improving Teacher Quality State Grants	84.367	76,861	76,861
Title IV Safe and Drug-Free Schools and Communities - State Grants	84.186	445	445
Title V Part A - State Grants for Innovative Programs	84.298	309	309
Charter Schools (CSP)	84.282	45,728	45,728
Special Education - Grants to States (IDEA, Part B)	84.027	235,546	235,546
Special Education - Preschool Grants (IDEA Preschool)	84.173	3,750	3,750
Katrina Foreign Contributions*	84.940	301,490	301,490
Hurricane Education Recovery Act Programs*			
Hurricane Educator Assistance Program (HEAP)	84.938K	84,698	84,698
<i>Passed-through Louisiana Department of Education, Recovery School District:</i>			
Hurricane Education Recovery Act Programs *			
Immediate Aid to Restart School Operations	84.938A	527,176	559,174
TOTAL U.S. DEPARTMENT OF EDUCATION		<u>1,953,760</u>	<u>1,985,758</u>

KIPP NEW ORLEANS, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
Year Ended June 30, 2008

<u>Federal Grantor/ Program Title/ Pass-Through Grantor</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>	<u>Revenues</u>
<u>U.S. Department of Agriculture:</u>			
<i>Passed-through Louisiana Department of Education</i>			
National School Lunch Program	10.555	430,290	483,168
TOTAL U.S. DEPARTMENT OF AGRICULTURE		430,290	483,168
TOTAL FEDERAL ASSISTANCE		\$ 2,384,050	\$ 2,468,926

*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, 2008

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, 2008

A. SUMMARY OF AUDITOR'S RESULTS

- The auditor's report expresses an unqualified opinion on the financial statements of KIPP New Orleans, Inc. ("KIPP").
- Four (4) control deficiencies disclosed during the audit of the financial statements are 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 findings 08-03, 08-04, 08-05 and 08-06. All four (4) conditions are considered to be significant deficiencies.
- Two instances of noncompliance material to the financial statements of KIPP were disclosed and identified as Findings 08-01 and 08-02.
- Three significant deficiencies relating to the audit of the major federal award programs are 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*. They are not considered to be material weaknesses. The significant deficiencies are identified as 08-03, 08-04, and 08-05.
- 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.
- Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
- A management letter was not issued for the year ended June 30, 2008.
- The programs tested as major programs for the fiscal year ended June 30, 2008 were:

<u>Program Title</u>	<u>CFDA No.</u>
Title I	84.010
Hurricane Education Recovery Cluster	84.938
Hurricane Katrina Foreign Contributions	84.940

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

KIPP NEW ORLEANS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2008

B - FINDINGS - FINANCIAL STATEMENT AUDIT (JUNE 30, 2008)

COMPLIANCE

Finding 08-01 Deposit Collateral

Condition:

We noted that certain bank deposits administered by KIPP's Fiscal Agent were uncollateralized by approximately \$77,000.

Criteria:

Louisiana Revised Statute 39:1225 requires that the security for deposits at all times be equal to one hundred percent of the amount of collected funds on deposit to the credit of each depositing authority except that portion of the deposits insured by any governmental agency insuring bank deposits which is organized under the laws of the United States.

Effect:

KIPP is in violation of State law.

Cause:

KIPP did not fully implement their plans to secure their bank deposits with their Fiscal Agent.

Recommendation:

Management should negotiate a contract with its Fiscal Agent stipulating that deposits must be fully insured or collateralized.

Response:

See Management's Corrective Action Plan for their response.

KIPP NEW ORLEANS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2008

Finding 08-02 Louisiana Public Bid Law

Condition:

We noted that KIPP did not obtain appropriate verbal and/or written price quotations for its purchases, which is a violation of Louisiana Public Bid Law.

Criteria:

KIPP should document obtaining verbal price quotations from at least three vendors for all purchases of at least \$1,000 but less than \$10,000. In addition, KIPP should obtain written price quotations from three or more vendors for all purchases of at least \$10,000 but not exceeding \$20,000. For any purchases in excess of \$20,000, KIPP should follow the Louisiana Public Bid Law, including all documentation requirements.

In addition, KIPP may choose to make use of State Contracts, which normally exempts the entity from having to perform bid law compliance procedures, but must be properly documented.

Effect:

KIPP is in violation of State law.

Cause

KIPP does not follow state Louisiana Public Bid Law, including all documentation requirements.

Recommendation:

KIPP should be in compliance with State laws and regulations, including the Louisiana Public Bid Law.

Response:

See Management's Corrective Action Plan for their response.

KIPP NEW ORLEANS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2008

Finding 08-03 Time and Effort Documentation

Condition:

KIPP 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 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 first hand 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'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 this program.

Cause:

Management was unaware of the requirement for furnishing certifications or maintaining time and effort records.

KIPP NEW ORLEANS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2008

Recommendation:

We recommend that KIPP create 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 through out 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.

Response:

See Management's Corrective Action Plan for their response.

KIPP NEW ORLEANS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2008

Finding 08-04 Documentation of Expenditures of Federal Awards

Condition:

KIPP was unable to locate the supporting documentation for several requested expenditures of Federal Awards during the course of our audit. As a result, we were not able to determine if the expenditures and related activities were allowable in accordance with the grant objectives. Several of these expenditures were for items purchased with a KIPP credit card; however, the Business Operations Manager at the school was unable to access the online account to obtain documentation.

Criteria:

Proper documentation is required to be maintained for all federal programs in order to verify that the expenditures and related activities are allowable.

Effect:

Federal funds could have been used for expenditures and related activities that are not allowable.

Cause:

Non-compliance with established policies and procedures in addition to inadequate oversight of credit card transactions on federal award programs contributed to the lack supporting documentation for certain expenditures.

Recommendation:

We recommend that KIPP provide adequate training to its employees on proper documentation for all federal programs and also provide for adequate internal review of required documentation. KIPP should adhere to its established policies and procedures.

Response:

See Management's Corrective Action Plan for their response.

KIPP NEW ORLEANS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2008

Finding 08-05 Purchasing and Procurement

Condition:

In one instance a vendor was paid twice for the same invoice. The overpayment was returned voluntarily but was not detected by KIPP's internal controls. In addition, a KIPP employee was generating invoices for services performed by a relative of that employee. Although the expenditures appear appropriate, it could be seen as a conflict of interest. KIPP did not consistently generate purchase orders for procurement of goods and services in accordance with their policy.

Criteria:

Grantees must ensure that their procurement systems have the following procedures in place and functioning properly:

1. Contract administration system
 - a. Written contracts or purchase orders
 - b. Clear deliverables
 - c. Written invoices
 - Sequentially numbered
 - The services the vendor performed or goods it delivered
 - The dates when the services were performed or goods were delivered
 - The locations where the services were performed or goods were delivered
 - The number of eligible beneficiaries that were served, if applicable
 - d. Payment process
2. Written code of standards of conduct, including conflict-of-interest standards
3. Procedures for review of proposed procurements
4. Awards to responsible contractors
5. Maintenance of records
6. Time & materials contracts
7. Settlement of issues arising out of procurements
8. Protest procedures to resolve disputes
9. Encouragement to employ certain economies in purchasing

Effect:

Federal funds could have been used for expenditures and related activities that are not allowable.

KIPP NEW ORLEANS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2008

Cause:

Failure to comply with written policies and procedures contributed to the missing supporting documentation.

Recommendation:

We recommend that KIPP establish a centralized purchasing system and adhere to its policies and procedures, including documentation of and controls over purchasing and expenditures in accordance with federal regulations to avoid possible non-compliance with federal grants.

Response:

See Management's Corrective Action Plan for their response.

KIPP NEW ORLEANS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2008

Finding 08-06 Net Assets

Condition:

Our review of the client prepared June 30, 2008 unadjusted Trial Balance revealed that net assets did not agree to the prior fiscal years audited financial statements. As a result, material audit adjustments were required to properly state beginning net assets.

Criteria:

KIPP's books must properly reflect all adjusting journal entries.

Effect:

KIPP's books do not match the audited financial statements.

Cause:

KIPP did not book audit adjustments from prior audits.

Recommendation:

We recommend that KIPP develop and implement procedures as it relates to net assets to ensure that they are properly recorded at fiscal year end. Also, policies and procedures should be established to record any restrictions on net assets.

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, 2008

FINDINGS - FINANCIAL STATEMENT AUDIT (JUNE 30, 2007)

COMPLIANCE

Finding 07-01 Deposit Collateral

Condition:

We noted that the bank deposits administered by one of KIPP' Fiscal Agents were uncollateralized by approximately \$1.3 million.

Criteria:

Louisiana Revised Statute 39:1225 requires that the security for deposits at all times be equal to one hundred percent of the amount of collected funds on deposit to the credit of each depositing authority except that portion of the deposits insured by any governmental agency insuring bank deposits which is organized under the laws of the United States.

Effect:

KIPP New Orleans is in violation of State law.

Cause:

KIPP New Orleans did not proceed with plans to secure their funds with their Fiscal Agent.

Recommendation:

Management should negotiate a contract with its Fiscal Agent stipulating that deposits must be fully insured or collateralized.

Response:

See Management's Corrective Action Plan for their response.

MANAGEMENT LETTER

A management letter was not issued for the year ended June 30, 2007.

KIPP NEW ORLEANS, INC.
CORRECTIVE ACTION PLAN FOR CURRENT YEAR AUDIT FINDINGS
AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2008

Finding 08-01 - Deposit Collateral

Recommendation:

Management should negotiate a contract with its Fiscal Agent stipulating that deposits must be fully insured or collateralized.

Corrective Action:

As of the date of this report, management has negotiated a contract with its Fiscal Agent stipulating that deposits must be fully insured or collateralized.

In June of 2008, the management of KIPP, working with its Fiscal Agent, implemented an Investment Sweep Treasury product to provide the collateralization of deposits as required by Louisiana Revised Statute. During the first month or so after implementation the KIPP cash position changed dramatically, and fine-tuning of the agreement was required on two occasions to achieve full collateralization of bank deposits. The Fiscal Agent was very responsive to the needs identified, and by early August 2008, KIPP deposits were in full compliance with applicable Louisiana Revised Statutes.

Implementation Date:

Immediately.

Contact:

Marsha Pemble, Director of Finance, (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, 2008

Finding 08-02 Louisiana Public Bid Law

Recommendation:

KIPP should comply with State laws and regulations, including the Louisiana Public Bid Law.

Corrective Action:

Near the end of fiscal year 2007-2008, KIPP employed a regional finance director to work with all of the KIPP New Orleans charter schools. This individual has the credentials and experience needed to strengthen financial practices, including compliance with Louisiana Public Bid Laws.

During the first six months of fiscal year 2008-2009, the management of KIPP developed a transition plan, initiated school-level staffing, supervision and role changes, and recruited additional regional personnel to begin centralization of financial functions. While full implementation will not occur immediately, expanded regional supervision of all financial matters, including purchasing, will begin in January 2009, enabled by the addition of additional accounting staff.

While KIPP transitions to full centralization of finance and accounting, purchasing will continue to be conducted in a decentralized environment. To prevent bid law violations during the transition period, the following corrective action plan has been identified:

1. A formal KIPP purchasing policy will be proposed by the regional finance office and written guidelines and procedures developed.
2. Educational sessions on the KIPP purchasing policy, as well as on the Louisiana Public Bid law, will be provided to all regional and school employees having purchasing authority during February 2009. In order to retain purchasing authority, including holding a business credit card, attendance at a session will be required.
3. The use of state contract purchasing for all procurement in excess of \$20,000 will be required. Exceptions may be granted by the regional finance director, by providing evidence of intended compliance with state bid law requirements.
4. Incidents of non-compliance with KIPP's purchasing policy are to be reported to the Compliance Committee, whose membership will be appointed by the KIPP Executive Director.

Implementation Date:

Immediately.

Contact:

Marsha Pemble, Director of Finance, (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, 2008

Finding 08-03 Time and Effort Documentation

Recommendation:

Management should document time and effort in accordance with OMB Circular A-87.

Corrective Action:

The time and effort documentation deficiency identified in the annual audit relates to inexperience in federal grant compliance management as required under the Federal Office of Management and Budget (OMB) Circular A-87. The management of KIPP has developed the following corrective action plan:

1. Educational sessions will be presented during January 2009, to regional leaders, school leaders, and school business operations directors to provide guidance on time and effort requirements and to provide training on the implementation of a time and effort system that meets federal requirements. Printed resources will be provided to participants on the topic, along with copies of KIPP procedures, report forms and logs.
2. School leaders will use the resources and knowledge gained at the educational session, and provide time and effort guidance and training to all employees paid from federal grants at their schools.
3. Time and effort certification report forms will be prepared semi-monthly for all employees working a portion, but not all, of their time on a single Federal award or cost objective. All employees working 100% of their time on a single Federal award or cost objective will provide written certification of their actual effort on a semi-annual basis.
4. The business operations director in each school will be the designated time and effort coordinator, responsible for preparing and distributing the report forms to all employees required to complete them.
5. The time and effort certification report forms must be completed and signed by employees, certifying that they actually performed the work as indicated on the form.
6. Signed certification reports will be returned to the designated time and effort coordinator in each school, who shall review the reports for completion and perform independent reviews as required, ensuring the integrity of the reporting system and process.
7. Time and effort coordinators will maintain a perpetual aged record of all reports generated, certified and outstanding. Incidents of non-compliance are to be reported to the Compliance Committee, whose membership will be appointed by the KIPP Executive Director.
8. On a monthly basis, certified and reviewed reports are forwarded to the regional finance office to be placed in official files.

Implementation Date:

Immediately.

KIPP NEW ORLEANS, INC.
CORRECTIVE ACTION PLAN FOR CURRENT YEAR AUDIT FINDINGS
AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2008

Contact:

Marsha Pemble, Director of Finance, (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, 2008

Finding 08-04 Documentation of Expenditures of Federal Awards

Recommendation:

Management should adhere to all stipulated policies and procedures. KIPP should consider hiring or internally training an employee to perform grant administration and compliance with federal award programs on a full time basis.

Corrective Action:

The KIPP regional finance director has the knowledge and experience needed to perform grant administration and monitoring of compliance with provisions of federal and state grants. Until such time that a full-time grants administration position is considered essential by the management of KIPP, the regional finance director will personally oversee the expenditure of grant awards and administration of federal and state grants awarded to KIPP schools.

The finance director will be supported in the management and control of supporting documents and in other grants administration duties by a new school support center employee, the regional accounting supervisor. Each school's business operations director has a vital role in the management of expenditures of federal awards, and the accounting supervisor will provide them with written guidelines and individual training on documenting services, receiving goods, and processing supporting documentation for all expenditures.

Implementation Date:

Immediately.

Contact:

Marsha Pemble, Director of Finance, (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, 2008

Finding 08-05 Purchasing and Procurement

Recommendation:

Management should adhere to all stipulated policies and procedures. KIPP should consider hiring or internally training an employee to perform grant administration and compliance with federal award programs on a full time basis.

Corrective Action:

Please note the corrective action plan identified in the response to audit finding 08-02. Step 1 indicated the development of a formal KIPP purchasing policy that will be proposed by the regional finance office. During the time KIPP transitions to full centralization of finance and accounting (including purchasing) the policy, procedures, guidelines and training identified in Step 2 will support regional and school employees having purchasing power, on steps and decision-making relating to:

- Louisiana Public Bid Law.
- State contract purchasing.
- Acceptable business credit card use.
- Planning for travel, meals, and entertainment.
- Steps, documentation, and other requirements at various procurement thresholds.
- Purchasing through use of written contracts and/or purchase orders.
- Review and approval of proposed procurements.
- Awards.
- Maintenance of records.
- Settlement of issues and protest procedures.
- Standards of conduct.

Incidents of non-compliance with KIPP's purchasing policy are to be reported to the Compliance Committee, whose membership will be appointed by the KIPP Executive Director.

Implementation Date:

Immediately.

Contact:

Marsha Pemble, Director of Finance, (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, 2008

Finding 08-06 Net Assets

Recommendation:

We recommend that KIPP develop and implement procedures as it relates to net assets to ensure that they are properly recorded at fiscal year end. Also, policies and procedures should be established to record any restrictions on net assets.

Corrective Action:

While KIPP's regional finance director had identified a difference in net assets per financial records to the prior year audited financial statements, it was after the arrival of the audit team before she found time to analyze and correct the discrepancy. The difference was caused by failure to record prior year audit entries to reclassify purchases of fixed assets from expenditure to balance sheet accounts, and the recording of depreciation.

The entries to reclassify asset purchases and record depreciation for fiscal year 2007-2008 were proposed by KIPP and immediately recorded to financial records.

A new chart of account was designed and implemented at the start of fiscal year 2008-2009, providing a structure, through utilization of the Louisiana Accounting and Uniform Governmental Handbook, to accurately track and manage both restricted and unrestricted public school funding streams. A formal policy will be established to record restrictions on net assets.

Implementation Date:

Immediately.

Contact:

Marsha Pemble, Director of Finance, (504) 373-6269

KIPP NEW ORLEANS, INC.

COMMUNICATION OF INTERNAL CONTROL MATTERS

December 12, 2008

REBOWE & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

CONSULTANTS

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3501 N. Causeway Blvd. • Suite 810 • P.O. Box 6952 • Metairie, LA 70009
Phone (504) 837-9116 • Fax (504) 837-0123 • www.rebowe.com

December 12, 2008

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

In planning and performing our audit of the financial statements of KIPP New Orleans, Inc. ("KIPP") as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered KIPP's internal control over financial reporting (internal control) 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 KIPP's internal control. Accordingly, we do not express an opinion on the effectiveness of KIPP's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph 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 that we consider to be material weaknesses, as defined below. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects KIPP's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be a significant deficiency in internal control:

Personnel Files

Observation:

During our audit of KIPP's payroll expenditures, we noted that KIPP does not maintain certain required supporting documents in its personnel files. We requested and reviewed a sample of twenty-five (25) personnel files. We reviewed those files and noted that nine (9) of the twenty-five (25) lacked an employee background check and fingerprint records. Pursuant to §2905 of Bulletin 126 - Louisiana Charter School law, a criminal history review is required for all staff members employed expected to be placed in a position of supervisory or disciplinary authority over school children. Additionally, we noted several instances of the personnel files missing employee applications, copies of the employee's social security card and driver's license, a signed contract authorizing salary between KIPP and the employee, the employee's service records certifying the teacher's years of experience at other schools, and documentation to verify the employee's education.

Recommendation:

We recommend that KIPP follow its established policies and procedures regarding maintaining personnel files.

Management's Corrective Action Plan:

Most of the missing supporting documents were identified from files tested from McDonogh 15. Prior to the start of the annual audit, an internal audit was conducted at that school by their newly hired business operations director and missing documents were noted in a number of employee files.

Employees with missing documents were required to submit fingerprint cards and new background check forms were created and submitted to the Louisiana State Police for processing shortly afterward. While the reports were not received before the review of personnel files by auditors, they have now been received and placed in employee files. All McDonogh 15 files from the sample have been corrected, with the exception of two files tested for terminated employees.

No later than February 2009, an internal audit of personnel files at other KIPP schools and the School Support Center will be made to identify and correct any additional deficiencies.

Documentation of Expenditures

Observation:

During our audit of KIPP's expenditures, we noted that KIPP does not uniformly maintain appropriate documentation for expenditures in accordance with its policies and procedures, including vendor invoices not being properly matched with check stubs and failure to utilize purchase orders.

Recommendation:

We recommend that KIPP establish a centralized purchasing system and adhere to its policies and procedures regarding documentation of expenditures.

Management's Corrective Action Plan:

While KIPP transitions to full centralization of finance and accounting, purchasing will continue to be conducted in a decentralized environment. A multi-faceted plan has been developed to strengthen financial practices and equip KIPP personnel, focusing on the following areas:

1. A formal KIPP purchasing policy will be proposed by the regional finance office and written guidelines and procedures developed. Purchasing through use of written contracts and/or purchase orders will be clearly addressed.
2. Educational sessions on the KIPP purchasing policy will be provided to all regional and school employees having purchasing authority during February 2009. In order to retain purchasing authority, including holding a business credit card, attendance at a session will be required.
3. Each school's business operations director will be provided with both written guidelines and individual training on receiving goods, processing invoices and other supporting documentation, authorizing disbursements and file management.

Credit Card Use

Observation:

We noted several credit cards were used by KIPP employees to make purchases for books and other school supplies. In several instances we were not able to obtain proper documentation (receipts) for such credit card purchases. In one instance a credit card was being used to pay an account from an online vendor. The online account was established in the name of an employee and KIPP had no access to the account.

Recommendation:

In general, credit card use of this nature raises the potential for fraud and the misappropriation of funds. We recommend that if KIPP continues to utilize credit cards and that their use be limited to the minimum number of employees, such as the Business Manager at each school, and that the cards be authorized for use for specific limited purposes. Purchases generally should be made through a centralized purchasing department utilizing purchase orders. Travel, meals, and entertainment should be paid on a reimbursement basis or by the use of per diem allowances. Proper documentation of all such expenditures should be maintained.

Management's Corrective Action Plan:

In late May 2008, a business credit card account was established and issued to key personnel as approved by the Executive Director. A handbook to instruct credit card users, "Credit Card Guidelines", was issued to each cardholder at the time the cards were distributed. Each cardholder was required to sign an acknowledgment that he/she received the handbook and would adhere to the guidelines.

Before the business card account was established, several KIPP locations used credit cards obtained by site leaders, or used bank debit cards tied to the school's checking account. At the time the KIPP business credit card account was established, all existing credit and debit cards were closed. The problems identified in the audit related to credit card and debit card use prior to this time.

In combination with the issuance of a formal KIPP purchasing policy, the credit card guidelines will be reviewed, revised as appropriate, and incorporated into the purchasing policy. The KIPP executive director and regional finance director will review the list of cardholders and make changes, as appropriate. Each credit cardholder will be required to attend educational sessions on the purchasing policy to retain their business credit card.

The purchasing policy, procedures and training will support and empower regional and school employees given purchasing authority, on steps and wise decision-making relating to:

- Louisiana Public Bid Law.
- State contract purchasing.
- Acceptable business credit card use.
- Planning for travel, meals, and entertainment.

- Steps, documentation, and other requirements at various procurement thresholds.
- Purchasing through use of written contracts and/or purchase orders.
- Review and approval of proposed procurements.
- Awards.
- Maintenance of records.
- Settlement of issues and protest procedures.
- Standards of conduct.

Net Assets

Observation:

Our review of the client prepared June 30, 2008 unadjusted Trial Balance revealed that net assets did not agree to the prior fiscal years audited financial statements. As a result, material audit adjustments were required to properly state beginning net assets.

Recommendation:

We recommend that KIPP develop and implement procedures as it relates to net assets to ensure that they are properly recorded at fiscal year end. Also, policies and procedures should be established to record any restrictions on net assets.

Management's Corrective Action Plan:

While KIPP's regional finance director had identified a difference in net assets per financial records to the prior year audited financial statements, it was after the arrival of the audit team before she found time to analyze and correct the discrepancy. The difference was caused by failure to record prior year audit entries to reclassify purchases of fixed assets from expenditure to balance sheet accounts, and the recording of depreciation.

The entries to reclassify asset purchases and record depreciation for fiscal year 2007-2008 were proposed by KIPP and immediately recorded to financial records.

A new chart of account was designed and implemented at the start of fiscal year 2008-2009, providing a structure, through utilization of the Louisiana Accounting and Uniform Governmental Handbook, to accurately track and manage both restricted and unrestricted public school funding streams. A formal policy will be established to record restrictions on net assets.

This communication is intended solely for the information and use of management, members of the Board, others within the organization, and the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties.

Rebowe & Company

December 12, 2008