

KIPP DELTA PUBLIC SCHOOLS
REGULATORY BASIS FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

JUNE 30, 2011

with

REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
KIPP Delta Public Schools
Helena, Arkansas

We have audited the accompanying financial statements of each major governmental fund, and the aggregate remaining fund information of the KIPP Delta Public Schools (the "School") as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the School'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 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 opinions.

As described more fully in Note 1, the School has prepared the financial statements using accounting practices prescribed or permitted by the Arkansas Code, which differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determined, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the School as of June 30, 2011, or the changes in the financial position or cash flows, where applicable, thereof for the year then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the School, as of June 30, 2011, and the respective changes in financial position and budgetary results for the year then ended, on the basis of accounting described in Note 1.

To the Board of Directors
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In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2011 on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. 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 audits were conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise the School's regulatory basis of accounting. The Schedule of Capital Assets, Schedule of Expenditures of Federal Awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and Schedule of Findings and Questioned Costs are presented for purposes of additional analysis and are not a required part of the regulatory basis financial statements. The Schedule of Capital Assets, Schedule of Expenditures of Federal Awards, Schedule of Findings and Questioned Costs have been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, in our opinion, are fairly stated, in all material respects in relation to the regulatory basis financial statements taken as a whole.

Hudson Cisne & Co. LLP

December 9, 2011
Little Rock, Arkansas

KIPP DELTA PUBLIC SCHOOLS
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2011

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>
ASSETS			
Cash and cash equivalents	\$ 984,164	\$ 350,302	\$ 2,222
Accounts receivable	40,544	149,083	545
Pledges receivable	697,324	-	25,000
Due from other funds	<u>102,459</u>	<u>-</u>	<u>8,168</u>
	<u>\$ 1,824,491</u>	<u>\$ 499,385</u>	<u>\$ 35,935</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 101,291	\$ 47,191	\$ -
Due to other funds	<u>8,168</u>	<u>102,459</u>	<u>-</u>
Total liabilities	<u>109,459</u>	<u>149,650</u>	<u>-</u>
Fund Balances:			
Restricted:			
State funding	238,030	-	-
Federal programs	-	349,735	-
Capital projects	-	-	35,935
Other	357,975	-	-
Committed	9,797	-	-
Assigned	3,327	-	-
Unassigned	<u>1,105,903</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>1,715,032</u>	<u>349,735</u>	<u>35,935</u>
	<u>\$ 1,824,491</u>	<u>\$ 499,385</u>	<u>\$ 35,935</u>

See accompanying notes.

KIPP DELTA PUBLIC SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - REGULATORY BASIS
YEAR ENDED JUNE 30, 2011

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>
REVENUES			
State assistance	\$ 4,409,796	\$ 2,284	\$ -
Federal assistance	-	2,174,273	-
Contributions	1,177,844	-	1,000
Activity revenues	51,693	-	-
Earnings on investments	3,300	-	-
Other revenues	38,099	34,487	-
	<u>5,680,732</u>	<u>2,211,044</u>	<u>1,000</u>
EXPENDITURES			
Current:			
Regular programs	1,904,980	113,345	-
Special education	321,774	35,533	-
Compensatory education	291,077	427,700	-
Other instructional services	2,080	-	-
Student support services	62,704	52,558	-
Instructional staff support services	63,184	338,417	-
General administration support services	297,372	27,341	-
School administration support services	954,210	25,503	-
Business support services	124,045	9,246	-
Operation and maintenance of plant services	580,373	67,367	-
Student transportations services	401,339	149,899	-
Other support services	187,109	23,894	-
Food services operations	9,646	479,762	-
Capital outlay	533,491	229,621	240,077
Debt service:			
Principal retirement	489,540	-	-
Interest and fiscal charges	249,195	-	-
	<u>6,472,119</u>	<u>1,980,186</u>	<u>240,077</u>
Excess (deficiency) of revenues over expenditures	(791,387)	230,858	(239,077)
OTHER FINANCING SOURCES (USES)			
Proceeds from issuance of debt	-	-	200,000
Program funding return	(59)	(15,891)	-
	<u>(59)</u>	<u>(15,891)</u>	<u>200,000</u>
Net change in fund balances	(791,446)	214,967	(39,077)
Fund balance - beginning	<u>2,506,478</u>	<u>134,768</u>	<u>75,012</u>
Fund balance - ending	<u>\$ 1,715,032</u>	<u>\$ 349,735</u>	<u>\$ 35,935</u>

See accompanying notes.

KIPP DELTA PUBLIC SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES - BUDGET TO ACTUAL - GENERAL AND SPECIAL
REVENUE FUNDS - REGULATORY BASIS
YEAR ENDED JUNE 30, 2011

	General		
	Budgeted amounts	Actual	Variance
REVENUES			
State assistance	\$ 4,427,275	\$ 4,409,796	\$ (17,479)
Federal assistance	-	-	-
Contributions	1,318,003	1,177,844	(140,159)
Activity revenues	62,850	51,693	(11,157)
Earnings on investments	-	3,300	3,300
Other revenues	-	38,099	38,099
	<u>5,808,128</u>	<u>5,680,732</u>	<u>(127,396)</u>
EXPENDITURES			
Current:			
Regular programs	1,762,277	1,904,980	(142,703)
Special education	33,697	321,774	(288,077)
Compensatory education	686,538	291,077	395,461
Other instructional services	-	2,080	(2,080)
Student support services	67,121	62,704	4,417
Instructional staff support services	129,600	63,184	66,416
General administration support services	361,906	297,372	64,534
School administration support services	1,072,653	954,210	118,443
Business support services	117,518	124,045	(6,527)
Operation and maintenance of plant services	679,136	580,373	98,763
Student transportations services	573,768	401,339	172,429
Other support services	176,228	187,109	(10,881)
Food services operations	-	9,646	(9,646)
Capital outlay	418,039	533,491	(115,452)
Debt service:			
Repayment of outstanding debt	467,948	489,540	(21,592)
Interest and fiscal charges	243,233	249,195	(5,962)
	<u>6,789,662</u>	<u>6,472,119</u>	<u>317,543</u>
Excess (deficiency) of revenues over expenditures	(981,534)	(791,387)	190,147
OTHER FINANCING SOURCES (USES)			
Program funding return	-	(59)	(59)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>\$ (981,534)</u>	<u>\$ (791,446)</u>	<u>\$ 190,088</u>

See accompanying notes.

Special Revenue		
Budgeted amounts	Actual	Variance
\$ -	\$ 2,284	\$ 2,284
2,509,369	2,174,273	(335,096)
-	-	-
-	-	-
-	-	-
-	34,487	34,487
<u>2,509,369</u>	<u>2,211,044</u>	<u>(298,325)</u>
64,774	113,345	(48,571)
37,614	35,533	2,081
671,300	427,700	243,600
-	-	-
99,870	52,558	47,312
560,386	338,417	221,969
34,223	27,341	6,882
36,248	25,503	10,745
28,056	9,246	18,810
35,960	67,367	(31,407)
-	149,899	(149,899)
-	23,894	(23,894)
505,100	479,762	25,338
-	229,621	(229,621)
-	-	-
-	-	-
<u>2,073,531</u>	<u>1,980,186</u>	<u>93,345</u>
435,838	230,858	(204,980)
-	(15,891)	(15,891)
<u>\$ 435,838</u>	<u>\$ 214,967</u>	<u>\$ (220,871)</u>

KIPP DELTA PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 1: Summary of significant accounting policies

Reporting entity

The Board of Directors, is the level of government, which has responsibilities over all activities of the KIPP Delta Public Schools (“School”), formerly KIPP Delta College Preparatory School. The School’s financial statements reflect all funds and accounts directly under the control of the School. There are no component units.

Description of funds

Major governmental funds (per the regulatory basis of accounting) are defined as General and Special Revenue.

General Fund - The General Fund is the general operating fund and is used to account for all financial resources, except those required to be reported in another fund.

Special Revenue Fund - The Special Revenue Fund is used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes. Other governmental funds consist of the following:

Capital Projects Fund - The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments).

Measurement focus and basis of accounting

The financial statements are prepared in accordance with a regulatory basis of accounting (RBA), which is an Other Comprehensive Basis of Accounting (OCBOA). This basis of accounting is prescribed by Ark. Code Ann. 10-4-412 (c), as provided in Act 2201 of 2005, and requires that financial statements be presented on a fund basis with, as a minimum, the general fund and special revenue fund presented separately and all other funds included in the audit presented in the aggregate. The law also stipulates that the financial statements consist of a balance sheet; a statement of revenues, expenditures, and changes in fund balances; a comparison of the final adopted budget to the actual expenditures for the general fund and special revenue funds of the entity; notes to financial statements; and a supplemental schedule of capital assets, including land, buildings, and equipment. The law further stipulates that the State Board of Education shall promulgate the rules necessary to administer the regulatory basis of presentation.

The RBA is not in accordance with generally accepted accounting principles (GAAP). GAAP require that basic financial statements present government-wide financial statements. Additionally, GAAP require the following major concepts: Management’s Discussion and Analysis, accrual basis of accounting for government-wide financial statements, including depreciation expense, modified accrual basis of accounting for fund financial statements, separate financial statements for fiduciary fund types, separate identification of special and extraordinary items, inclusion of capital assets and debt in the financial statements, specific procedures for the identification of major governmental funds and applicable note disclosures. The RBA does not require government-wide financial statements or the previously identified concepts.

KIPP DELTA PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 1: Summary of significant accounting policies (continued)

Measurement focus and basis of accounting (continued)

The accompanying financial statements are presented on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for purposes of recording specific activities or attaining certain objectives. Revenues are reported by major sources and expenditures are reported by major function. Other transactions, which are not reported as revenues or expenditures, are reported as other financing sources and uses. Transactions related to the recording of capital leases are reported as other financing sources.

Revenue recognition policies

Revenues are recognized when they become susceptible to accrual in accordance with the RBA.

Capital assets

Information on capital assets and related depreciation is reported in the supplemental information. Capital assets are capitalized at historical cost or estimated historical cost, if actual data is not available. Capital assets purchased are recorded as expenditures in the applicable fund at the time of purchase. Donated capital assets are reported at fair value when received. The School maintains a threshold level of \$1,000 and a useful life in excess of two years for capitalizing equipment.

No salvage value is taken into consideration for depreciation purposes. All capital assets, other than land and construction in progress, are depreciated using the straight-line method over the following useful lives:

<u>Asset Class</u>	<u>Estimated Useful Life in Years</u>
Improvements/infrastructure	25
Buildings	40
Furniture and equipment	5-20

Fund balance classifications

The Governmental Accounting Standards Board (GASB) released Statement 54 - "Fund Balance Reporting and Governmental Fund Type Definitions" (GASB 54) on March 11, 2009 which is effective for the School's fiscal year ending June 30, 2011. This Statement is intended to improve the usefulness of the amounts reported in fund balance by providing more structured classifications. Under GASB 54, fund balance is reported under the following five classifications:

1. **Nonspendable Fund Balance** - includes amounts that are not in a spendable form or are required to be maintained intact. The School does not have any nonspendable fund balance at year end.
2. **Restricted Fund Balance** - includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally, or through enabling legislation. The fund balance that is restricted for capital projects reflects amounts that are restricted for construction or other capital outlay projects. The fund balance that is restricted for other purposes includes donated funds in which the funds have been restricted by the donor for specific uses.

KIPP DELTA PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 1: Summary of significant accounting policies (continued)

Fund balance classifications (continued)

3. **Committed Fund Balance** - includes amounts that can be used only for the specific purposes determined by a formal action of the School's highest level of decision-making authority (the Board of Directors) and does not lapse at year end. Amounts committed for the School's college scholarship program make up the committed fund balance at year end.
4. **Assigned Fund Balance** - includes amounts intended for a specific purpose by the Board of Directors or by a School official that has been delegated authority to assign amounts.
5. **Unassigned Fund Balance** - includes any remaining fund balance that has not been reported in any other classification.

For the purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance (if any), assigned fund balance (if any) and lastly unassigned fund balance.

Budget and budgetary accounting

The School is required by state law to prepare an annual budget. The annual budget is prepared on a fiscal year basis. The School does not prepare and submit amended budgets during the fiscal year. The State Department of Education's regulations allow for the cash basis or the modified accrual basis. However, the majority of the Schools employ the cash basis method.

The School budgets intra-fund transfers. Significant variances may result in the comparison of transfers at the Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General and Special Revenue Funds - Regulatory Basis because only interfund transfers are reported at the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds - Regulatory Basis.

Budgetary perspective differences are not considered to be significant, because the structure of the information utilized in preparing the budget and the applicable fund financial statements is essentially the same.

Pledges receivable

An allowance for uncollectible pledges receivable is provided based upon management's judgment of potential defaults. The determination includes such factors as prior collection history, type of contribution and nature of fund raising activity. Pledges not expected to be collected within one year are discounted. Management did not feel that allowance for uncollectible pledges was required for the years ended June 30, 2011 and 2010. Conditional promises to give are not included as support until the conditions are substantially met.

Income taxes

The School is exempt from income taxes pursuant to Section 501(c) (3) of the Internal Revenue Code and comparable provisions of state income tax laws.

KIPP DELTA PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 2: Cash deposits with financial institutions

Cash deposits are carried at cost (carrying value). A comparison of the bank balance and carrying value is as follows:

	Carrying amount	Bank balance
Insured (FDIC)	\$ 1,344,856	\$ 1,566,682
Uninsured	-	-
Total deposits	\$ 1,344,856	\$ 1,566,682

Note 3: Pledges receivable

Unconditional pledges receivable at June 30, 2011 and 2010 are as follows:

Pledges expected to be collected:

	2011	2010
In less than one year	\$ 590,000	\$ 700,000
1 - 5 years	152,500	217,500
	742,500	917,500
Less discount (at 6% for pledges from 2011 to 2010)	(20,176)	(34,616)
Net unconditional pledges receivable	\$ 722,324	\$ 882,884

At June 30, 2011, \$742,500 in gross pledges receivable were attributable to three donors, for which no reserve has been provided.

As of June 30, 2011, the School had received conditional promises to give of \$2,061,668. These conditional promises to give will not be recognized as an asset or revenue until the conditions are substantially met.

Cash collected on unrestricted and temporarily restricted pledges totaled \$675,000 during the year ended June 30, 2011.

Note 4: Commitments

The School was contractually obligated for the following at June 30, 2011:

Notes payable issued and outstanding

Notes payable consists of a loan for a total of \$2,339,020, which is guaranteed by the USDA Rural Development. One-half of the loan is financed by USDA. This portion of the loan is payable over 40 years with interest at the prevailing Rural Development Intermediate rate, 4.75%. The other half of the loan is financed by Southern Bancorp and guaranteed by the USDA. At June 30, 2008, the loan is payable over 20 years with variable interest rate at 8% over the New York Prime rate. This is capped at 10% as of June 30, 2008. On August 22, 2008, the rate was adjusted to 2% over prime, future maturities are based on this adjusted rate which is currently 6.50%.

KIPP DELTA PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 4: Commitments (continued)

Notes payable issued and outstanding (continued)

The proceeds of this debt was used for construction of facilities. The outstanding balance of these notes payable were \$2,005,201 as of June 30, 2011.

Notes payable includes a \$1,285,606 loan with Southern Bancorp Capital Partners secured by certain real estate. This loan consists of a refinanced loan for the purchase of land, conversion of construction loan to permanent, and additional funds used for construction-related expenses. The loan matures in June 2029 and has a fixed interest rate of 5.50%. The outstanding balance of this loan was \$1,211,489 as of June 30, 2011.

Notes payable includes a \$453,947 loan with Southern Bancorp Capital Partners secured by certain real estate. This loan was refinanced in March 2011, and converted from a \$1,400,000 construction loan to a permanent loan at that time. The proceeds were used for the expansion of the middle school campus. The loan matures in March 2031 and has a fixed interest rate of 4.00%. The outstanding balance of this loan was \$434,087 as of June 30, 2011.

Notes payable includes a \$200,000 loan with Southern Bancorp Capital Partners secured by certain real estate. The proceeds from this loan were used for the construction of facilities. The loan matures in March 2031 and has a fixed interest rate of 5.00%. The outstanding balance of this loan was \$198,939 as of June 30, 2011.

Notes payable also consists of a \$1,000,000 unsecured loan with the Charter School Growth Fund. The loan matures in December 2015 and has a fixed interest rate of 3.75%. The proceeds of the loan are to be used for the general support of the organization. The outstanding balance of this loan was \$1,000,000 as of June 30, 2011.

Changes in notes payable:

Description	Balance at July 1, 2010	Issued	Retired	Balance at June 30, 2011
USDA loan	\$ 1,113,066	\$ -	\$ 13,381	\$ 1,099,685
Southern Bancorp Capital Partners	963,243	-	57,727	905,516
Southern Bancorp Capital Partners	1,249,530	-	38,041	1,211,489
Southern Bancorp Capital Partners	782,196	-	348,109	434,087
Southern Bancorp Capital Partners	-	200,000	1,061	198,939
Charter School Growth Fund	<u>1,000,000</u>	<u>-</u>	<u>-</u>	<u>1,000,000</u>
	<u>\$ 5,108,035</u>	<u>\$ 200,000</u>	<u>\$ 458,319</u>	<u>\$ 4,849,716</u>

KIPP DELTA PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 4: Commitments (continued)

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 119,906	\$ 204,950	\$ 324,856
2013	126,649	198,207	324,856
2014	134,044	190,812	324,856
2015	141,876	182,980	324,856
2016	1,150,174	385,828	1,536,002
2017-2021	893,707	730,569	1,624,276
2022-2026	979,899	447,078	1,426,977
2027-2031	660,701	181,791	842,492
2032-2036	199,530	130,290	329,820
2037-2041	252,900	76,920	329,820
2042-2046	190,330	13,135	203,465
Total	<u>\$ 4,849,716</u>	<u>\$ 2,742,560</u>	<u>\$ 7,592,276</u>

Note 5: Capital leases

The School has entered into two capital leases for school buses. The property held under the capital leases is summarized as follows as of June 30, 2011:

Equipment, net of accumulated depreciation	\$ 108,437
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Minimum future lease payments under the capital leases at June 30, 2011 are as follows:

2012	\$ 33,239
2013	36,229
2014	<u>27,172</u>
Total minimum lease payments	96,640
Interest	<u>(7,454)</u>
	<u>\$ 89,186</u>

Note 6: Retirement plans

Arkansas Teacher Retirement System

Plan description: The School contributes to the Arkansas Teacher Retirement System (ATRS), a cost-sharing multiple-employer defined benefit pension plan that covers all Arkansas public school employees, except certain nonteachers hired prior to July 1, 1989. ATRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit and contribution provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Teacher Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for ATRS. That report may be obtained by writing to Arkansas Teacher Retirement System, 1400 West Third Street, Little Rock, Arkansas 72201 or by calling 1-800-666-2877.

KIPP DELTA PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 6: Retirement plans

Arkansas Teacher Retirement System (continued)

Funding policy: ATRS has contributory and non-contributory plans. Contributory members are required by law to contribute 6% of their salary. Each participating employer is required by law to contribute at a rate established by the Arkansas General Assembly. The current employer rate is 14%. The School's contributions to ATRS for the year ended June 30, 2011 was \$457,207, equal to the required contributions each year.

Note 7: Significant concentration

The School is economically dependent on funding received through state awards, federal awards, and private donations. Approximately 56%, 28%, and 15% of total revenues were from state sources, federal sources and private donations, respectively, during the year ended June 30, 2011.

Note 8: Contingencies

The School participates in federally assisted grant programs. The School is potentially liable for expenditures which may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of non-compliance which would result in the disallowance of program expenditures.

Note 9: Fund-raising expenses

The School uses fund-raising to encourage donations within the community. The costs of fund-raising activities are expensed as incurred. During 2011, fund-raising costs totaled \$37,946.

REQUIRED SUPPLEMENTARY INFORMATION

KIPP DELTA PUBLIC SCHOOLS

SCHEDULE OF CAPITAL ASSETS

YEAR ENDED JUNE 30, 2011

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
Depreciable capital assets:				
Building and improvements	\$ 6,472,310	\$ 1,562,527	\$ -	\$ 8,034,837
Furniture and equipment	1,189,247	490,632	-	1,679,879
Total depreciable capital assets	7,661,557	2,053,159	-	9,714,716
Nondepreciable capital assets:				
Construction in progress	971,655	-	971,655	-
Land	369,110	20,261	-	389,371
Total nondepreciable capital assets	1,340,765	20,261	971,655	389,371
Total capital assets	9,002,322	2,073,420	971,655	10,104,087
Less accumulated depreciation for:				
Building and improvements	558,114	226,386	-	784,500
Furniture and equipment	449,669	229,709	-	679,378
Total accumulated depreciation	1,007,783	456,095	-	1,463,878
Capital assets, net	\$ 7,994,539	\$ 1,617,325	\$ 971,655	\$ 8,640,209

OTHER REPORTS AND SUPPLEMENTARY INFORMATION



**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***

To the Board of Directors
KIPP Delta Public Schools
Helena, Arkansas

We have audited the financial statements of each major governmental fund and the aggregate remaining fund information of KIPP Delta Public Schools (the "School"), as of and for the year ended June 30, 2011, which collectively comprise the School's regulatory basis financial statements, and have issued our report thereon dated December 9, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We issued an adverse opinion because the School prepared the financial statements using accounting practices prescribed or permitted by Arkansas Code, which differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determined, are presumed to be material. However, the financial statements present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the School as of June 30, 2011, and the respective changes in financial position and budgetary results for the year then ended, on the basis of accounting described in Note 1.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect 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 internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

To the Board of Directors
Page Two

Compliance and Other Matters

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

We noted certain other matters that we reported to the School's management in a separate letter dated December 9, 2011.

This report is intended for the information and use of the Legislative Joint Auditing Committee, state executive and oversight management, School management, the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specific parties. However, this report is a matter of public record and its distribution is not limited.

Hudson Cisne & Co. LLP

Hudson, Cisne & Co. LLP
Little Rock, AR
December 9, 2011



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

To the Board of Directors
KIPP Delta Public Schools
Helena, Arkansas

Compliance

We have audited the compliance of the KIPP Delta Public Schools (the "School") as 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 the major federal programs for the year ended June 30, 2011. The School'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 the School's management. Our reasonability is to express an opinion on School's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; 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, *Audit 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 the School'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 on the School's compliance with those requirements.

In our opinion, the KIPP Delta Public Schools 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, 2011. However, the results of our auditing procedures disclosed instances of non-compliance with those requirements, which 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 as items 2011-1, 2011-2 and 2011-3.

To the Board of Directors
Page Two

Internal control over compliance

The management of the School is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with 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 the School's internal control over compliance.

A deficiency in 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 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 is a deficiency, or combination of deficiencies 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 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 identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying Schedule of Findings and Questioned Costs as items 2011-1, 2011-2 and 2011-3. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The School's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the School's responses and, accordingly, we express no opinion on them.

This report is intended for the information and use of the Legislative Joint Auditing Committee, state executive and oversight management, School management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specific parties. However, this report is a matter of public record and its distribution is not limited.

Hudson Cisne & Co. LLP

Hudson, Cisne & Co. LLP
Little Rock, Arkansas
December 9, 2011

KIPP DELTA PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

<u>Federal grant/pass-through grantor/program title</u>	<u>Federal CFDA number</u>	<u>Federal expenditures</u>
U.S. DEPARTMENT OF EDUCATION		
<u>Passed through Arkansas Department of Education</u>		
Title I - Part A - Grants to Local Education Agencies	84.010	\$ 747,619
Title I - Part A - Grants to Local Education Agencies - ARRA	84.389	220,944
Title VI - Part B - Special Education Grants to States	84.027	69,135
Title VI - Part B - Special Education Grants to States - ARRA	84.391	48,387
Title X - Charter Schools	84.282	82,879
Title II - Part A - Improving Teacher Quality State Grants	84.367	9,246
Title II - Part D - Education Tech. Competitive Grants - ARRA	84.386	38,032
Title I - Education Jobs Fund - ARRA	84.410	128,528
<u>Subrecipient from KIPP Foundation</u>		
Fund for the Improvement of Education	84.215K	4,273
Title X - Charter Schools	84.282M	116,680
Total U.S. Department of Education		1,465,723
U.S. DEPARTMENT OF AGRICULTURE		
<u>Passed through Arkansas Department of Education</u>		
Cash Assistance:		
Child Nutrition Cluster:		
School Breakfast Program	10.553	142,880
National School Lunch Program	10.555	269,342
Child and Adult Care Food Program	10.558	75,651
<u>Passed through Arkansas Department of Human Services</u>		
Non-cash Assistance (Commodities):		
Child Nutrition Cluster:		
National School Lunch Program	10.555	15,995
Total U.S. Department of Agriculture		503,868
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
<u>Passed through Arkansas Department of Education</u>		
Medical Assistance Program	93.778	25,414
Total expenditures of federal awards		\$ 1,995,005

Notes to schedule:

- This schedule includes the federal awards activity of the School and is presented on the regulatory 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.
- Medicaid reimbursements are defined as contracts for services and not federal awards, therefore, such reimbursements totaling \$4,545 are not covered by the reporting requirements of OMB Circular A-133.

KIPP DELTA PUBLIC SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011

A. SUMMARY OF AUDITOR'S RESULTS

1. Our report expresses an adverse opinion based on generally accepted accounting principles and an unqualified opinion based on regulatory basis of accounting on the basic financial statements of KIPP Delta Public Schools.
2. No significant deficiencies were disclosed during the audit of the financial statements.
3. No instances of non-compliance material to the financial statement of KIPP Delta Public Schools were disclosed during the audit of the financial statements.
4. There were three significant deficiencies identified during the audit of the major federal award programs.
5. Our report on compliance for the major federal awards programs for KIPP Delta Public Schools expresses an unqualified opinion.
6. There was one audit finding required to be reported in accordance with Section 510(a) of the OMB Circular A-133 relative to the major federal award programs.
7. The programs tested as major programs included:
 - Title I, Part A - Grants to Local Educational Agencies - CFDA 84.010
 - Title I, Part A – Grants to Local Educational Agencies, ARRA – CFDA 84.389
 - Education Jobs Fund, ARRA – CFDA 84.410
8. The threshold for distinguishing types A and B program was \$300,000.
9. KIPP Delta Public Schools was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

None

C. FINDINGS - MAJOR FEDERAL AWARD PROGRAMS AUDIT AND QUESTIONED COSTS

Title I, Part A - Grants to Local Educational Agencies - CFDA 84.010

2011-1: Non-compliance with Allowable costs/cost principles: Transportation costs

Criteria: Transportation costs should only be allocated to the federal program for allowable travel and the correct rate per mile should be used in the allocation.

Condition: The School allocated more than the allowable amount of transportation costs to the federal program referenced above.

Context: As a result of performing a recalculation of the allowable transportation costs, it was noted that an unallowable amount of transportation costs were allocated to the federal program.

KIPP DELTA PUBLIC SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

C. FINDINGS - MAJOR FEDERAL AWARD PROGRAMS AUDIT AND QUESTIONED COSTS (continued)

Title I, Part A - Grants to Local Educational Agencies - CFDA 84.010 (continued)

2011-1: Non-compliance with Allowable costs/cost principles: Transportation costs (continued)

Effect: The School improperly charged \$15,891 for transportation costs that were calculated by using the incorrect dollar amount per mile.

Cause: The School used a rate of \$3.40 per mile, which is a state approved rate relating to travel to and from athletic events, rather than the correct rate of \$1.95 per mile.

Recommendation: The School should calculate the total amount of the School's transportation costs and the number of total miles driven by all of the School's buses in order to arrive at the dollar amount per mile. This rate should be used to calculate the transportation costs that relate to the federal program.

Views of Responsible Officials and Planned Corrective Actions: The School was misinformed by a reliable resource of the rate to use. Prior to closing the books for the year, the School recalculated the expense using the correct rate and did a journal entry to reduce the expense by the \$15,891. This in turn, reduced our federal reimbursement by \$15,891. Going forward, we will apply the correct rate to transportation costs associated with federally-funded programs.

2011-2: Non-compliance with Allowable costs/cost principles: Time certifications

Criteria: Office of Management and Budget (OMB) Circular A-87 requires periodic time certifications for employees who work on a federal program.

Condition: Periodic time certifications were not prepared for all employees who worked on the federal program reflected above.

Context: Review of sample employees and related documents substantiating time worked by employees.

Effect: Certifications were not completed and this enhances the likelihood that an employee is paid from a federal program that is inconsistent with the work they are performing.

Cause: Requirement was not enforced or consistently monitored during the current fiscal year.

Recommendation: The School should monitor the completion of the periodic time certifications for all applicable employees.

Views of Responsible Officials and Planned Corrective Actions: Although the School kept time certifications for part-time employees, the School did not keep time certifications for the one-month summer program. The School is now fully aware that regardless of the length of time, all federally funded positions require time certifications. Time certifications were collected for the summer 2011 program, and a system has been implemented for ensuring all federally funded positions have time certifications.

KIPP DELTA PUBLIC SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

C. FINDINGS - MAJOR FEDERAL AWARD PROGRAMS AUDIT AND QUESTIONED COSTS (continued)

Title I, Part A - Grants to Local Educational Agencies - CFDA 84.010 (continued)

2011-3: Non-compliance with Allowable costs/cost principles: Travel advances

Criteria: Supporting documentation should be provided by employees who receive a travel advance.

Condition: Employees who received a travel advance did not provide supporting documentation to substantiate how the funds were spent by the employee.

Context: As a result of inquiry of management and disbursement testing, it was noted that employees did not provide any supporting documentation for travel advances.

Effect: The lack of requirement for supporting documentation for travel advances does not allow the School to acknowledge whether the funds were entirely spent by the employee, or that the expenditures were allowable under the federal program requirements.

Cause: The School does not require employees who received a travel advance to provide supporting documentation for how the funds were spent by the employee.

Recommendation: The School should implement a policy that requires employees to provide supporting documentation to substantiate how travel advances were spent. If the entire amount of the travel advance is not spent, then the employee should be required to repay the remaining funds to the School.

Views of Responsible Officials and Planned Corrective Actions: Given the information provided by the auditors, the School has now removed the issuance of per diem from its fiscal policies. Employees will now be required to submit a reimbursement request and include itemized receipts to ensure no funds are issued for unapproved expenses.

D. PRIOR YEAR FINDINGS AND QUESTIONED COSTS

2010-1: Net assets and interfund transfers

Criteria: The School's beginning net assets should reflect the prior year's ending net assets and interfund transfers should be equal.

Condition: The School's financial statements do not properly account for net assets and interfund transfers.

Effect: There are no due to and due from amounts used to record interfund activity.

Cause: The School recognized an interfund payable by decreasing the fund's cash balance, and recognized an interfund receivable by increasing the cash balance. As such, the interfund payables and receivables were not recorded.

KIPP DELTA PUBLIC SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2011

D. PRIOR YEAR FINDINGS AND QUESTIONED COSTS (continued)

2010-1: Net assets and interfund transfers (continued)

Previous Recommendation: Interfund activity should be accounted for by using due to and due from accounts.

Current Status: The School properly accounted for net assets and interfund activity in the current year financial statements.



**INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE WITH ARKANSAS STATE REQUIREMENTS**

To the Board of Education
KIPP Delta Public Schools
Helena, Arkansas

We have examined management's assertions that KIPP Delta Public Schools (the "School") substantially complied with the requirements of Arkansas Code Annotated 6-1-101 and the applicable laws and regulations including those listed in the accompanying schedule of statutes required to be addressed by the Arkansas Department of Education during the year ended June 30, 2011. Management is responsible for the School's compliance with those requirements. Our responsibility is to express an opinion on management's assertions about the School's compliance based on our examination.

Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the School's compliance with specified requirements.

In our opinion, KIPP Delta Public Schools complied with the aforementioned requirements for the year ended June 30, 2011, except for statute 6-20-222 described in the accompanying schedule.

This report is intended solely for the information and use of the Board of Directors, management, and the Arkansas Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Hudson Cisne & Co. LLP

Hudson Cisne & Co. LLP
Little Rock, Arkansas
December 9, 2011

KIPP DELTA PUBLIC SCHOOLS**SCHEDULE OF FINDINGS ON COMPLIANCE WITH STATUTES REQUIRED BY
ARKANSAS DEPARTMENT OF EDUCATION****YEAR ENDED JUNE 30, 2011****FINDINGS - STATE COMPLIANCE****Ark-2011-1.** Statute 6-20-222 – Deposit of School funds

Criteria: All general deposits of School funds in banks shall be secured by general obligation bonds of the United States, by bonds, notes, debentures, or other obligations issued by an agency of the United States Government, by bonds of the State of Arkansas, or by bonds of a political subdivision thereof which has never defaulted on any of its obligations, in accordance with Arkansas Code Annotated (A.C.A.) 6-20-222.

Condition: The School has capital projects funds that are invested in a money market mutual fund that does not adhere to the requirements of A.C.A. 6-20-222.

Context: This condition was noted as a result of the review of bank statements.

Effect: This is a requirement of the state statute.

Cause: The School unknowingly invested in a money market account that is actually a money market mutual fund. This fund invests in short-term securities, which is a violation of the requirements of A.C.A. 6-20-222.

Recommendation: The School should withdraw all funds from this account.

Views of Responsible Officials and Planned Corrective Actions: The School was able to fully withdraw all remaining funds in September 2011 and close that account. The School will take cautionary steps to ensure that all future investments meet the requirements of A.C.A. 6-20-222.

**KIPP DELTA PUBLIC SCHOOLS
SCHEDULE OF STATUTES REQUIRED BY ARKANSAS DEPARTMENT OF EDUCATION
TO BE ADDRESSED IN INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
YEAR ENDED JUNE 30, 2011**

<u>DESCRIPTION</u>	<u>STATUTES</u>
Bidding & Purchasing Commodities	6-21-301 – 6-21-305
Ethical Guidelines and Prohibitions	6-13-628; 6-24-101 et seq.
Collateralization & Investment of Funds	6-20-222; 19-1-504
Deposit of Funds	19-8-104; 19-8-106
District Finances	6-20-402
• Bonded & Non-bonded Debt, District School Bonds	6-20-1201 – 6-20-1208; 6-20-1210
• Petty Cash	6-20-409
Management of Schools	
• Board of Directors	6-13-604; 6-13-606; 6-13-608; 6-13-611 – 6-13-613; 6-13-617 – 6-13-620; 6-13-1406; 6-24-101; 6-24-104; 6-24-105
• District Treasurer	6-13-701
○ Warrants	6-17-918; 6-17-919; 6-20-403
Management Letter for Audit	14-75-101 – 14-75-104
Nonrecurring Salary Payments	6-20-412
Revolving Loan Fund	6-19-114; 6-20-801 et seq.
Salary Laws	6-17-2201 et seq.; 6-17-2301 et seq.
School Elections	6-13-622; 6-13-630; 6-13-631; 6-13-634; 6-14-106; 6-14-109; 6-14-118; 6-13-1412; 6-13-1413
Teachers and Employees	
• Personnel Policies	6-17-201 et seq.
• Employment and Assignment	6-17-301 et seq.
• Teacher's License Requirement	6-17-401 et seq.
• Contracts	6-17-801 et seq.
• Certification Requirements	6-17-309; 6-17-401
• Fair Dismissal Act	6-17-1501 et seq.; 6-17-1701 et seq.
• Sick Leave Policies	6-17-1201 et seq.; 6-17-1301 et seq.
Teacher Salaries, the Minimum Foundation Program Aid Act	6-17-803; 6-17-907; 6-17-908; 6-17-911 - 6-17-913; 6-17-918; 6-17-919
Trust Funds (Education Excellence)	6-5-307
Use of Contractors, Improvement Contracts	22-9-201 – 22-9-205
Use of DM&O Millage	26-80-110