

KIPP DELTA PUBLIC SCHOOLS
REGULATORY BASIS FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

JUNE 30, 2010

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, 2010, 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, 2010, 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, 2010, 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 October 19, 2010 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

October 19, 2010
Little Rock, Arkansas

**KIPP DELTA PUBLIC SCHOOLS
LITTLE ROCK, ARKANSAS**

BALANCE SHEET - REGULATORY BASIS

JUNE 30, 2010

	General	Special Revenue	Capital Projects
ASSETS			
Cash and cash equivalents	\$ 984,934	\$ 134,596	\$ 50,012
Accounts receivable	8,667	724,902	-
Pledges receivable	857,884	-	25,000
Due from other funds	716,699	-	-
Total assets	<u>\$ 2,568,184</u>	<u>\$ 859,498</u>	<u>\$ 75,012</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 61,706	\$ 8,031	\$ -
Due to other funds	-	716,699	-
Total liabilities	61,706	724,730	-
Fund Balances:			
Reserved for:			
Capital projects	-	-	75,012
Other	-	134,768	-
Unreserved:			
Undesignated	2,506,478	-	-
Total fund balances	2,506,478	134,768	75,012
Total liability and fund balances	<u>\$ 2,568,184</u>	<u>\$ 859,498</u>	<u>\$ 75,012</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, 2010

	General	Special Revenue	Capital Projects
REVENUES			
State assistance	\$ 3,541,424	\$ 5,686	\$ -
Federal assistance	-	2,033,154	-
Contributions	1,274,965	-	9,400
Activity revenues	39,292	-	-
Earnings on investments	3,145	-	2,923
Other revenues	1,370	23,571	-
	4,860,196	2,062,411	12,323
EXPENDITURES			
Current:			
Regular programs	1,799,611	104,507	1,000
Special education	191,252	9,145	-
Compensatory education	71,588	144,908	-
Other instructional services	500	-	-
Student support services	53,679	64,610	-
Instructional staff support services	5,249	133,820	-
General administration support services	345,800	58,166	-
School administration support services	598,999	46,949	-
Business support services	91,311	13,702	-
Operation and maintenance of plant services	456,057	31,367	22,120
Student transportations services	340,199	-	-
Other support services	88,058	-	-
Food services operations	-	337,225	-
Capital outlay	395,389	1,043,673	129,340
Debt service:			
Interest and fiscal charges	230,889	-	-
	4,668,581	1,988,072	152,460
Excess (deficiency) of revenues over expenditures	191,615	74,339	(140,137)
OTHER FINANCING SOURCES (USES)			
Transfers in (out)	83,715	14,207	(97,922)
Proceeds from issuance of debt	778,236	-	-
Repayment of outstanding debt	(137,870)	-	-
Total other financing sources (uses)	724,081	14,207	(97,922)
Net change in fund balances	915,696	88,546	(238,059)
Fund balance - beginning	1,590,782	46,222	313,071
Fund balance - ending	\$ 2,506,478	\$ 134,768	\$ 75,012

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, 2010

	General		
	Budgeted amounts	Actual	Variance favorable (unfavorable)
REVENUES			
State assistance	\$ 3,364,845	\$ 3,541,424	\$ 176,579
Federal assistance	-	-	-
Contributions	756,128	1,274,965	518,837
Activity revenues	57,500	39,292	(18,208)
Earnings on investments	7,620	3,145	(4,475)
Other revenues	-	1,370	1,370
	<u>4,186,093</u>	<u>4,860,196</u>	<u>674,103</u>
EXPENDITURES			
Current:			
Regular programs	2,287,926	1,799,611	488,315
Special education	39,063	191,252	(152,189)
Compensatory education	229,576	71,588	157,988
Other instructional services	-	500	(500)
Student support services	36,829	53,679	(16,850)
Instructional staff support services	-	5,249	(5,249)
General administration support services	299,553	345,800	(46,247)
School administration support services	770,204	598,999	171,205
Business support services	110,366	91,311	19,055
Operation and maintenance of plant services	720,990	456,057	264,933
Student transportations services	461,845	340,199	121,646
Other support services	132,624	88,058	44,566
Food services operations	-	-	-
Capital outlay		395,389	(395,389)
Debt service:			
Interest and fiscal charges	-	230,889	(230,889)
	<u>5,088,976</u>	<u>4,668,581</u>	<u>420,395</u>
Excess (deficiency) of revenues over expenditures	(902,883)	191,615	1,094,498
OTHER FINANCING SOURCES (USES)			
Transfers in (out)	-	83,715	83,715
Loan proceeds	-	778,236	778,236
Repayment of outstanding debt	(304,168)	(137,870)	166,298
Total other financing sources (uses)	<u>(304,168)</u>	<u>724,081</u>	<u>1,028,249</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>\$ (1,207,051)</u>	<u>\$ 915,696</u>	<u>\$ 2,122,747</u>

See accompanying notes.

Special Revenue		
Budgeted amounts	Actual	Variance favorable (unfavorable)
\$ -	\$ 5,686	\$ 5,686
1,092,430	2,033,154	940,724
-	-	-
-	-	-
-	-	-
-	23,571	23,571
<u>1,092,430</u>	<u>2,062,411</u>	<u>969,981</u>
-	104,507	(104,507)
20,581	9,145	11,436
469,100	144,908	324,192
-	-	-
106,303	64,610	41,693
-	133,820	(133,820)
41,006	58,166	(17,160)
-	46,949	(46,949)
-	13,702	(13,702)
58,002	31,367	26,635
-	-	-
-	-	-
446,980	337,225	109,755
897,305	1,043,673	(146,368)
-	-	-
<u>2,039,277</u>	<u>1,988,072</u>	<u>51,205</u>
(946,847)	74,339	1,021,186
-	14,207	14,207
-	-	-
-	-	-
<u>-</u>	<u>14,207</u>	<u>14,207</u>
<u>\$ (946,847)</u>	<u>\$ 88,546</u>	<u>\$ 1,035,393</u>

KIPP DELTA PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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, 2010

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 installment contracts and capital leases are reported as other financing sources. Changes in private-purpose trust funds will be reflected in the notes to the financial statements.

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 designations

Undesignated fund balance indicates that portion of the fund balance not reserved or designated.

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.

KIPP DELTA PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

Note 1: Summary of significant accounting policies (continued)

Budget and budgetary accounting (continued)

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, 2010 and 2009. 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.

Note 2: Cash deposits with financial institutions

At June 30, 2010, and periodically throughout the year, the School had cash deposits with Arkansas financial institutions in excess of federally insured limits. However, the School does not believe that it is subject to any unusual credit risk beyond the normal credit risk associated with commercial banking relationships. Cash deposits are carried at cost (carrying value). A comparison of the bank balance and carrying value is as follows:

	<u>Carrying amount</u>	<u>Bank balance</u>
Insured (FDIC)	\$ 262,411	\$ 262,411
Uninsured	<u>892,207</u>	<u>1,651,533</u>
Total deposits	<u>\$ 1,154,618</u>	<u>\$ 1,913,944</u>

Note 3: Pledges receivable

Unconditional pledges receivable at June 30, 2010 and 2009 are as follows:

Pledges expected to be collected:

	<u>2010</u>	<u>2009</u>
In less than one year	\$ 700,000	\$ 305,000
1 - 5 years	<u>217,500</u>	<u>292,500</u>
	917,500	597,500
Less discount (at 6% for pledges from 2010 to 2009)	<u>(34,616)</u>	<u>(53,407)</u>
Net unconditional pledges receivable	<u>\$ 882,884</u>	<u>\$ 544,093</u>

KIPP DELTA PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

Note 3: Pledges receivable (continued)

At June 30, 2010, \$917,500 in gross pledges receivable were attributable to three donors, for which no reserve has been provided.

As of June 30, 2010, the School had received conditional promises to give of \$2,852,401. 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 \$330,000 during the year ended June 30, 2010.

Note 4: Commitments

The School was contractually obligated for the following at June 30, 2010:

Notes payable issued and outstanding

Notes payable consists of a loan for a total of \$2,222,200, 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 7%.

The proceeds of this debt was used for construction of facilities. The outstanding balance of these notes payable were \$2,076,309 as of June 30, 2010.

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 \$1,249,530 as of June 30, 2010.

Notes payable includes a \$1,400,000 construction loan with Southern Bancorp Capital Partners secured by certain real estate. The proceeds from this loan will be used for the expansion of the middle school campus. Interest of 4.00% is paid monthly and all accrued interest and outstanding principal will be due April 2011. The School does have a commitment from the bank that once construction is complete, the note payable will be refinanced on a permanent basis with a monthly payment due including interest at 4.00% with balance due 20 years from date of refinance. The outstanding balance of this loan was \$782,196 as of June 30, 2010.

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, 2010.

KIPP DELTA PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

Note 4: Commitments (continued)

Changes in notes payable:

<u>Description</u>	<u>Balance at July 1, 2009</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance at June 30, 2010</u>
USDA loan	\$ 1,125,828	\$ -	\$ 12,762	\$ 1,113,066
Southern Bancorp	1,014,231	-	50,988	963,243
Southern Bancorp Capital Partners	1,285,606	-	36,076	1,249,530
Southern Bancorp Capital Partners	-	782,196	-	782,196
Charter School Growth Fund	1,000,000	-	-	1,000,000
	<u>\$ 4,425,665</u>	<u>\$ 782,196</u>	<u>\$ 99,826</u>	<u>\$ 5,108,035</u>

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 89,482	\$ 200,736	\$ 290,218
2012	95,572	194,646	290,218
2013	102,099	188,119	290,218
2014	109,092	181,126	290,218
2015	112,416	177,802	290,218
2016-2020	1,688,964	1,017,865	2,706,829
2021-2025	918,697	395,391	1,314,088
2026-2030	532,224	224,892	757,116
2031-2035	190,292	139,528	329,820
2036-2040	240,191	89,629	329,820
2041-2045	246,810	24,252	271,062
Total	<u>\$ 4,325,839</u>	<u>\$ 2,833,986</u>	<u>\$ 7,159,825</u>

Note 5: Capital leases

The School has entered into three capital leases for school buses. Obligations under the capital leases are summarized as follows as of June 30, 2010:

Equipment, net of accumulated depreciation \$ 44,590

Future minimum lease payments under the capital leases at June 30, 2010 are as follows:

2011	\$ 12,135
2012	<u>6,067</u>
	18,202
Less: Interest	<u>(1,350)</u>
	<u>\$ 16,852</u>

KIPP DELTA PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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.

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, 2010 was \$294,003, 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 51%, 29%, and 19% of total revenues were from state sources, federal sources and private donations, respectively, during the year ended June 30, 2010.

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 2010, fund-raising costs totaled \$86,465.

Note 10: Subsequent events

Subsequent to year end the School opened a new school in Blytheville, Arkansas.

REQUIRED SUPPLEMENTARY INFORMATION

KIPP DELTA PUBLIC SCHOOLS

SCHEDULE OF CAPITAL ASSETS

YEAR ENDED JUNE 30, 2010

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010
Depreciable capital assets:				
Building and improvements	\$ 6,464,234	\$ 6,226	\$ -	\$ 6,470,460
Construction in progress	-	971,655	-	971,655
Furniture and equipment	623,655	565,592	-	1,189,247
Sites	<u>369,110</u>	<u>1,850</u>	<u>-</u>	<u>370,960</u>
Total depreciable capital assets	<u>7,456,999</u>	<u>1,545,323</u>	<u>-</u>	<u>9,002,322</u>
Less accumulated depreciation for:				
Building and improvements	378,123	179,991	-	558,114
Furniture and equipment	<u>304,707</u>	<u>144,962</u>	<u>-</u>	<u>449,669</u>
Total accumulated depreciation	<u>682,830</u>	<u>324,953</u>	<u>-</u>	<u>1,007,783</u>
Depreciable capital assets, net	<u>\$ 6,774,169</u>	<u>\$ 1,220,370</u>	<u>\$ -</u>	<u>\$ 7,994,539</u>

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

We have audited the financial statements of KIPP Delta Public Schools (the "School" as of and for the year ended June 30, 2010, and have issued our report thereon dated October 19, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs to be material weakness in internal control over financial reporting, 2010-1.

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*.

To the Board of Directors
Page Two

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

This report is intended solely for the information and use of management, others within the entity, the Board of Directors, and state awarding agencies and pass-through entities 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, AR
October 19, 2010



**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, 2010. The School's major federal programs are identified in the summary of auditor's results section of the accompanying scheduled 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, 2010.

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.

To the Board of Directors
Page Two

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.

This report is intended solely for the information and use of the School Board 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 specified 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
October 19, 2010

KIPP DELTA PUBLIC SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2010

**Federal Grantor/Pass Through
Grantor/Program title**

U.S. DEPT. OF EDUCATION	Federal CFDA No.	Federal expenditures
<u>Passed through Arkansas Department of Education</u>		
Title I - Grants to Local Educational Agencies	84.010	\$ 248,017
Title VI-B - Grants to States - Special Education	84.027	52,659
Title IV-A - Safe & Drug Free Schools and Communities	84.186	8,356
Title X – Charter Schools	84.282	61,947
Title II-A - Improving Teacher Quality Grant	84.367	13,702
Title II-D – ARRA – Education Technology Competitive Grants	84.386	90,331
Title I – ARRA – Grants to Local Educational Agencies	84.389	87,237
IDEA – ARRA – Grants to States – Special Education	84.391	14,956
ESEA Stabilization – ARRA State Fiscal Stabilization Fund – Education State Grants	84.394	862,551
ESEA Stabilization – ARRA State Fiscal Stabilization Fund - Government Services	84.397	34,754
<u>Subrecipient from KIPP Foundation</u>		
Earmark Grant Awards	84.215K	<u>138,727</u>
Total U.S. Department of Education		1,613,237
U.S. DEPT. OF AGRICULTURE		
<u>Passed through Arkansas Department of Education</u>		
Child Nutrition Cluster - School Breakfast Program	10.553	105,812
Child Nutrition Cluster - National School Lunch Program	10.555	194,976
Child Nutrition Cluster - Food Commodities	10.555	11,928
Child Nutrition Cluster - Care Food	10.558	<u>56,313</u>
Total U.S. Dept. of Agriculture		<u>369,029</u>
Total expenditures of federal awards		<u>\$ 1,982,266</u>

Note A - Basis of presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the School 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.

Note B - Medicaid Funding

Medicaid funding received by the School in 2010 was \$3,531.

KIPP DELTA PUBLIC SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

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. One significant deficiency disclosed during the audit of the financial statements is reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. The significant deficiency is also considered to be a material weakness.
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 are no significant deficiencies 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 were no audit findings 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
 - State Fiscal Stabilization Funds, ARRA Cluster - CFDA 84.394 and 84.397.
 - Child Nutrition Cluster - CFDA Nos. 10.553, 10.555 and 10.558.
8. The threshold for distinguishing types A and B program was \$300,000.
9. KIPP Delta Public Schools was determined to be a high-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

Material weakness:

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, 2010

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (continued)

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

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

Views of Responsible Officials and Planned Corrective Actions: School officials concur with the recommendation, and are taking steps towards correcting the material weakness and hope to have these issues resolved by the next audit.

C. FINDINGS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

D. PRIOR YEAR FINDINGS AND QUESTIONED COST

2009-1: Inability to prepare complete financial statements

Criteria: The School's financial statements should be complete and include all transactions related to the correct year-end.

Condition: The School's financial statements do not account for accounts payables and accounts receivables.

Effect: Controls are not in place to accrue expenditures payable and revenues receivable at year end.

Recommendation: Implement a policy that accounting personnel review collections received and disbursements made during the first months of the new fiscal year to determine whether the related revenues or expenditures should be accrued into the previous year's activity.

Views of Responsible Officials and Planned Corrective Actions: School officials concur with the recommendation.

Current status: Accounts receivable and accounts payable are properly accounted for the year ended June 30, 2010.

2009-2 and 2009-3: Segregation of Duties

Criteria: Duties pertaining to cash disbursements should be adequately segregated to reduce the opportunity for any individual in the normal course of his/her duties to both perpetuate and conceal errors and irregularities.

Condition: Our review of internal control revealed deficiencies in segregation of duties.

Effect: The school has inadequate control over cash disbursements.

Cause: The Director has APSCN administration rights and is the check signer.

KIPP DELTA PUBLIC SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2010

D. PRIOR YEAR FINDINGS AND QUESTIONED COST (continued)

2009-2 and 2009-3: Segregation of Duties (continued)

Recommendation: Segregation of duties relating to cash disbursements should be established to the extent possible.

Views of Responsible Officials and Planned Corrective Actions: Officials agree with this assessment and will work on alleviating the segregation of duties criteria.

Current status: The Executive Director now has limited APSCN administration rights and additional controls have been established to properly segregate duties pertaining to cash disbursements.



**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, 2010. 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, 2010.

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
October 19, 2010

**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, 2010**

<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