

**KIPP DELTA COLLEGE  
PREPARATORY SCHOOL**

**REGULATORY BASIS FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**JUNE 30, 2009**

**with**

**REPORT OF INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS**

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors  
KIPP Delta College Preparatory School  
Helena, Arkansas

We have audited the accompanying financial statements of each major governmental fund, and the aggregate remaining fund information of the KIPP Delta College Preparatory School (the "School") as of and for the year ended June 30, 2009, 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, 2009, 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, 2009, 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 November 10, 2009 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

November 10, 2009  
Little Rock, Arkansas

**KIPP DELTA COLLEGE PREPARATORY SCHOOL**

**LITTLE ROCK, ARKANSAS**

**BALANCE SHEET - REGULATORY BASIS**

**JUNE 30, 2009**

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,282,757	\$ 46,222	\$ 418,045
Accounts receivable	-	30,000	-
Pledges receivable, net of allowance	<u>494,093</u>	<u>-</u>	<u>50,000</u>
Total assets	<u>\$ 1,776,850</u>	<u>\$ 76,222</u>	<u>\$ 468,045</u>
 <b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ <u>36,067</u>	\$ <u>-</u>	\$ <u>304,974</u>
 <b>Fund Balances:</b>			
Reserved for:			
Capital projects	-	-	163,071
Unreserved:			
Undesignated	714,163	76,222	-
Designated	<u>1,026,620</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>1,740,783</u>	<u>76,222</u>	<u>163,071</u>
Total liability and fund balances	<u>\$ 1,776,850</u>	<u>\$ 76,222</u>	<u>\$ 468,045</u>

See accompanying notes.

**KIPP DELTA COLLEGE PREPARATORY SCHOOL**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**

**GOVERNMENTAL FUNDS - REGULATORY BASIS**

**YEAR ENDED JUNE 30, 2009**

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>
<b>REVENUES</b>			
State assistance	\$ 2,432,218	\$ 6,032	\$ -
Federal assistance	-	675,528	-
Contributions	1,218,449	-	162,434
Activity revenues	-	-	-
Earnings on investments	1,720	-	10,327
Other revenues	33,926	-	-
	<u>3,686,313</u>	<u>681,560</u>	<u>172,761</u>
<b>EXPENDITURES</b>			
<b>Current:</b>			
Regular programs	969,913	20,042	17,154
Special education	185,746	1,200	-
Compensatory education	91,796	180,547	-
Other instructional services	2,244	-	-
Student support services	-	188,188	-
Instructional staff support services	42,343	52,742	-
General administration support services	-	39,219	-
School administration support services	553,231	-	-
Business support services	-	20,448	-
Operation and maintenance of plant services	289,699	2,488	-
Student transportation services	192,666	-	-
Other support services	76,332	-	-
Food services operations	-	338,942	-
<b>Debt service:</b>			
Principal	64,032	-	-
Interest	177,297	-	-
<b>Capital lease:</b>			
Principal	44,845	-	-
Interest	4,912	-	-
<b>Capital outlay</b>	<u>100,459</u>	<u>46,193</u>	<u>3,053,059</u>
	<u>2,795,515</u>	<u>890,009</u>	<u>3,070,213</u>
<b>Excess (deficiency) of revenues over expenditures</b>	890,798	(208,449)	(2,897,452)
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers (out) in	(471,139)	148,788	322,351
Loan proceeds	1,000,000	-	1,200,000
Total other financing sources (uses)	<u>528,861</u>	<u>148,788</u>	<u>1,522,351</u>
<b>Net change in fund balances</b>	1,419,659	(59,661)	(1,375,101)
<b>Fund balance - beginning</b>	<u>321,124</u>	<u>135,883</u>	<u>1,538,172</u>
<b>Fund balance - ending</b>	\$ <u>1,740,783</u>	\$ <u>76,222</u>	\$ <u>163,071</u>

See accompanying notes.

# KIPP DELTA COLLEGE PREPARATORY SCHOOL

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET TO ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS

YEAR ENDED JUNE 30, 2009

	<b>General</b>		
	<b>Budgeted amounts</b>	<b>Actual</b>	<b>Variance favorable (unfavorable)</b>
<b>REVENUES</b>			
State assistance	\$ 2,412,519	\$ 2,432,218	\$ 19,699
Federal assistance	-	-	-
Contributions	1,445,251	1,218,449	(226,802)
Activity revenues	-	-	-
Earnings on investments	-	1,720	1,720
Other revenues	526,649	33,926	(492,723)
	4,384,419	3,686,313	(698,106)
<b>EXPENDITURES</b>			
<b>Current:</b>			
Regular programs	506,142	969,913	(463,771)
Special education	4,093	185,746	(181,653)
Compensatory education	46,201	91,796	(45,595)
Other instructional services	-	2,244	(2,244)
Student support services	-	-	-
Instructional staff support services	-	42,343	(42,343)
General administration support services	-	-	-
School administration support services	773,525	553,231	220,294
Business support services	-	-	-
Operation and maintenance of plant services	296,372	289,699	6,673
Student transportation services	293,357	192,666	100,691
Other support services	22,370	76,332	(53,962)
Food services operations	-	-	-
<b>Debt service:</b>			
Principal	111,086	64,032	47,054
Interest	-	177,297	(177,297)
<b>Capital lease:</b>			
Principal	44,845	44,845	-
Interest	-	4,912	(4,912)
<b>Capital outlay</b>	-	100,459	(100,459)
	2,097,991	2,795,515	(697,524)
<b>Excess (deficiency) of revenues over expenditures</b>	2,286,428	890,798	(1,395,630)
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers out (in)	-	(471,139)	(471,139)
Loan proceeds	-	1,000,000	1,000,000
Total other financing sources (uses)	-	528,861	528,861
<b>Net change in fund balances</b>	\$ 2,286,428	\$ 1,419,659	\$ (866,769)

See accompanying notes.

<b>Special Revenue</b>		
<b>Budget</b>	<b>Actual</b>	<b>Variance favorable (unfavorable)</b>
\$ -	\$ 6,032	\$ 6,032
504,875	675,528	170,653
-	-	-
185,480	-	(185,480)
-	-	-
-	-	-
690,355	681,560	(8,795)
855,646	20,042	835,604
15,950	1,200	14,750
177,454	180,547	(3,093)
-	-	-
65,280	188,188	(122,908)
-	52,742	(52,742)
27,371	39,219	(11,848)
103,682	-	103,682
-	20,448	(20,448)
150,682	2,488	148,194
-	-	-
-	-	-
316,386	338,942	(22,556)
-	-	-
-	-	-
-	-	-
-	-	-
-	46,193	(46,193)
1,712,451	890,009	822,442
(1,022,096)	(208,449)	813,647
-	148,788	148,788
-	-	-
-	148,788	148,788
\$ (1,022,096)	\$ (59,661)	\$ 962,435

# KIPP DELTA COLLEGE PREPARATORY SCHOOL

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

### **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 College Preparatory School (“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 COLLEGE PREPARATORY SCHOOL

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

### **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
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 COLLEGE PREPARATORY SCHOOL

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

### **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. 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, 2009, 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:

	<b>Carrying amount</b>	<b>Bank balance</b>
Insured (FDIC)	\$ 258,254	\$ 258,254
Uninsured	1,488,770	1,480,254
Total deposits	\$ 1,747,024	\$ 1,738,508

### **Note 3: Pledges receivable**

In accordance with SFAS 116, if a pledge is not expected to be collected within one year, it is discounted. Unconditional pledges receivable at June 30, 2009 and 2008 are as follows:

Pledges expected to be collected:

	<b>2009</b>	<b>2008</b>
In less than one year	\$ 305,000	\$ 155,550
1 - 5 years	292,500	-
	597,500	155,550
Less discount (at 6% for pledges from 2009 to 2008)	(53,407)	-
Less reserve for uncollectible pledges	-	(7,777)
Net unconditional pledges receivable	\$ 544,093	\$ 147,773

**KIPP DELTA COLLEGE PREPARATORY SCHOOL****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2009****Note 3: Pledges receivable (continued)**

At June 30, 2009, \$597,500 in gross pledges receivable were attributable to three donors, for which no reserve has been provided.

As of June 30, 2009, the School had received conditional promises to give of \$3,669,714. 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 \$105,550 during the year ended June 30, 2009.

**Note 4: Commitments**

The School was contractually obligated for the following at June 30, 2009:

**Long-term debt 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 \$2,140,059 as of June 30, 2009.

Note 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 \$1,285,606 as of June 30, 2009.

Note 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, 2009.

# KIPP DELTA COLLEGE PREPARATORY SCHOOL

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

### Note 4: Commitments (continued)

Changes in long-term debt:

<u>Description</u>	<u>Balance at July 1, 2008</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance at June 30, 2009</u>
USDA loan	\$ 1,137,998	\$ -	\$ 12,170	\$ 1,125,828
Southern Bancorp	1,043,447	-	29,216	1,014,231
Southern Bancorp Capital Partners	108,253	1,285,606	108,253	1,285,606
Charter School Growth Fund	-	1,000,000	-	1,000,000
	<u>\$ 2,289,698</u>	<u>\$ 2,285,606</u>	<u>\$ 149,639</u>	<u>\$ 4,425,665</u>

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 81,019	\$ 216,725	\$ 297,744
2011	86,814	210,930	297,744
2012	92,817	204,927	297,744
2013	99,764	197,980	297,744
2014	44,972	61,852	106,824
2015-2019	1,744,032	1,163,063	2,907,095
2020-2024	938,318	512,772	1,451,090
2025-2029	627,696	255,816	883,512
2030-2034	181,481	148,339	329,820
2035-2039	230,024	99,796	329,820
2040-2044	291,551	38,269	329,820
2045	7,177	58,787	65,964
Total	<u>\$ 4,425,665</u>	<u>\$ 3,169,256</u>	<u>\$ 7,594,921</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, 2009:

Equipment \$ 53,160

Future minimum lease payments under the capital leases at June 30, 2009 are as follows:

2010	\$ 39,810
2011	12,135
2012	6,067
Total	<u>\$ 58,012</u>
Less: Interest	<u>(4,852)</u>
	<u>\$ 53,160</u>

**KIPP DELTA COLLEGE PREPARATORY SCHOOL****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2009****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, 2009 was \$164,114, 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 54%, 15%, and 30% of total revenues were from state sources, federal sources and private donations, respectively, during the year ended June 30, 2009.

**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 10: 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 2009 and 2008, fund-raising costs totaled \$38,078 and \$11,309, respectively.

**REQUIRED SUPPLEMENTARY INFORMATION**

# KIPP DELTA COLLEGE PREPARATORY SCHOOL

## SCHEDULE OF CAPITAL ASSETS

YEAR ENDED JUNE 30, 2009

	<u>Balance</u> <u>July 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2009</u>
<b>Depreciable capital assets:</b>				
Building improvements	\$ 2,535,757	\$ 3,928,477	\$ -	\$ 6,464,234
Construction in progress	874,420	-	874,420	-
Furniture and equipment	477,523	178,257	32,125	623,655
Sites	<u>369,110</u>	<u>-</u>	<u>-</u>	<u>369,110</u>
Total depreciable capital assets	<u>4,256,810</u>	<u>4,106,734</u>	<u>906,545</u>	<u>7,456,999</u>
<b>Less accumulated depreciation for:</b>				
Building improvements	263,946	114,177	-	378,123
Furniture and equipment	<u>224,417</u>	<u>98,983</u>	<u>18,693</u>	<u>304,707</u>
Total accumulated depreciation	<u>488,363</u>	<u>213,160</u>	<u>18,693</u>	<u>682,830</u>
<b>Depreciable capital assets, net</b>	<u>\$ 3,768,447</u>	<u>\$ 3,893,574</u>	<u>\$ 887,852</u>	<u>\$ 6,774,169</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 College Preparatory School

We have audited the financial statements of KIPP Delta College Preparatory School (the "School" as of and for the year ended June 30, 2009, and have issued our report thereon dated November 10, 2009. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting, 2009-1 and 2009-2.

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

To the Board of Directors  
Page Two

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2009-1 and 2009-2 to be material weaknesses.

### **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*.

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 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  
November 10, 2009



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

To the Board of Directors  
KIPP Delta College Preparatory School  
Helena, Arkansas

**Compliance**

We have audited the compliance of the KIPP Delta College Preparatory School (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, 2009. 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 on 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 College Preparatory School 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, 2009.

**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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A *control deficiency* is an entity's internal control over compliance exists when the design or operations of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2009-3 to be significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider item 2009-3 to be material weakness.

The School's response 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 response and, accordingly, we express no opinion on it.

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  
November 10, 2009

**KIPP DELTA COLLEGE PREPARATORY SCHOOL**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2009**

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

<b>U.S. DEPT. OF EDUCATION</b>	<b>Federal CFDA No.</b>	<b>Federal expenditures</b>
<b><u>Passed through Arkansas Department of Education</u></b>		
Title I - Grants to local Educational agencies	84.010	\$ 316,500
Title VI-B - Grants to States - Special Education	84.027	65,981
Title V - Innovative Education Program Strategies	84.298A	831
Title II-D - Technology Literacy Challenge Fund Grants	84.318	2,901
Title II-A - Improving Teacher Quality Grant	84.367	19,617
Title IV-A - Safe & Drug Free Schools and Communities	84.186	1,788
<b><u>Subrecipient from KIPP Foundation</u></b>		
Earmark Grant Awards	84.215K	<u>113,449</u>
Total U.S. Department of Education		521,067
<b>U.S. DEPT. OF AGRICULTURE</b>		
<b><u>Passed through Arkansas Department of Education</u></b>		
Child Nutrition Cluster - School Breakfast Program	10.553	71,737
Child Nutrition Cluster - National School Lunch Program	10.555	<u>148,417</u>
Total U.S. Dept. of Agriculture		<u>220,154</u>
Total expenditures of federal awards		<u>\$ 741,221</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.

**KIPP DELTA COLLEGE PREPARATORY SCHOOL**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2009**

**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 College Preparatory School.
2. Two significant deficiencies disclosed during the audit of the financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. Both significant deficiencies are also considered to be material weaknesses.
3. No instances of non-compliance material to the financial statement of KIPP Delta College Preparatory School were disclosed during the audit of the financial statements.
4. One significant deficiency disclosed during the audit of the major federal award programs is reported in the Report on Compliance with Requirements Applicable to each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133. The significant deficiency is also considered to be material weakness.
5. Our report on compliance for the major federal awards programs for KIPP Delta College Preparatory School 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 - Grants to Local Education Agencies - CFDA No. 84.010 and Child Nutrition Cluster - CFDA Nos. 10.553 and 10.555.
8. The threshold for distinguishing types A and B program was \$300,000.
9. KIPP Delta College Preparatory School was determined to be a high-risk auditee.

**B. FINDINGS - FINANCIAL STATEMENTS AUDIT**

Material weakness:

**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.

**KIPP DELTA COLLEGE PREPARATORY SCHOOL**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2009**

**B. FINDINGS - FINANCIAL STATEMENTS AUDIT (continued)**

**2009-1: Inability to prepare complete financial statements (continued)**

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.

**2009-2: 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.

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.

**C. FINDINGS - MAJOR FEDERAL AWARD PROGRAMS AUDIT**

**2009-3: Segregation of Duties**

As discussed in Finding 2009-2, the School lacks segregation of duties pertaining to cash disbursements, including cash disbursements as it relates to the major federal award programs. Because of this lack of segregation of duty, an improper disbursement could be made without being identified. Management is aware of this condition and is working on alleviating the segregation of duties.



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

To the Board of Education  
KIPP Delta College Preparatory School  
Helena, Arkansas

We have examined management's assertions that KIPP Delta College Preparatory School (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, 2009. 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 College Preparatory School complied with the aforementioned requirements for the year ended June 30, 2009.

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  
November 10, 2009

**KIPP DELTA COLLEGE PREPARATORY SCHOOL  
SCHEDULE OF STATUTES REQUIRED BY ARKANSAS DEPARTMENT OF EDUCATION  
TO BE ADDRESSED IN INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
YEAR ENDED JUNE 30, 2009**

<b><u>DESCRIPTION</u></b>	<b><u>STATUTES</u></b>
Bidding & Purchasing Commodities	
School Officials Prohibited from Sales	6-21-301 – 6-21-305; 6-13-628
Collateralization & Investments	6-20-222; 19-1-504
Deposit of Funds	19-8-104; 19-8-106
District Finances	
• Bonded & Non-bonded Debt, District School Bonds	6-20-401; 6-20-402; 6-20-1201 et seq.
• Petty Cash	6-20-409
Investment of Funds	19-1-504
Management of Schools	
• Board of Directors	6-13-604; 6-13-606; 6-13-608; 6-13-611 – 6-13-613; 6-13-615 – 6-13-620; 6-13-1406; 6-24-101; 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 - 6-17-914; 6-17-918; 6-17-919
Teacher Salary Fund	6-17-908
Trust Funds	6-5-307
Use of Contractors, Improvement Contracts	22-9-201 – 22-9-205
Use of DM&O Millage	26-80-110