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KIPP NEW ORLEANS
FINANCIAL STATEMENTS
For the Year Ended June 30, 2007

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

Release Date 1/30/08

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REBOWE & COMPANY

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INDEPENDENT AUDITOR'S REPORT

Board of Directors of
KIPP New Orleans
New Orleans, Louisiana

We have audited the accompanying Statements of Financial Position of KIPP New Orleans (a nonprofit organization), and the related Statements of Activities and Cash Flows as of and for the years ended June 30, 2007 and 2006 and the Statement of Functional Expenses for the year ended June 30, 2007. These financial statements are the responsibility of the Organization's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KIPP New Orleans as of June 30, 2007 and 2006, and the changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2007 on our consideration of KIPP New Orleans' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Rebove & Company

December 19, 2007

KIPP NEW ORLEANS
STATEMENTS OF FINANCIAL POSITION
June 30, 2007 and 2006

	2007	2006
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,271,273	\$ 266,379
Prepaid expenses	19,185	14,065
Grants receivable	6,000	-
Other receivables	897,065	271,344
Other current assets	40	-
Total Current Assets	2,193,563	551,788
Other Assets:		
Deposits	955	750
Total Other Assets	955	750
Non-Current Assets:		
Property and equipment (net of accumulated depreciation)	286,504	-
Total Assets	\$ 2,481,022	\$ 552,538
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 562,847	\$ 49,895
Due to KIPP Foundation	19,783	-
Total Current Liabilities	582,630	49,895
Total Liabilities	582,630	49,895
Net Assets:		
Unrestricted	1,675,342	-
Temporarily restricted	223,050	502,643
Total Net Assets	1,898,392	502,643
Total Liabilities and Net Assets	\$ 2,481,022	\$ 552,538

See accompanying notes to financial statements.

KIPP NEW ORLEANS
STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
UNRESTRICTED NET ASSETS		
Public Support Revenues and Other Support		
Unrestricted grants in aid - State	\$ 3,037,273	\$ 254,168
Restricted grants in aid - Federal and State	1,876,378	192,360
Donations - unrestricted	1,122,406	493,022
Miscellaneous revenue	<u>274,976</u>	<u>384,852</u>
Total Public Support Revenues and Other Support	6,311,033	1,324,402
Net Assets Released from Restrictions		
Restrictions satisfied by payments	<u>227,190</u>	<u>-</u>
Total Support, Revenues and Reclassifications	<u>6,538,223</u>	<u>1,324,402</u>
Expenses		
Program services:		
Instructional	3,921,076	328,395
Supporting services:		
Management and general	<u>1,456,909</u>	<u>397,271</u>
Total Expenses	<u>5,377,985</u>	<u>725,666</u>
Other Unrestricted Income (Expense)		
Asset impairment loss on hurricane damage	-	(119,108)
Other	<u>12,461</u>	<u>-</u>
Total Other Unrestricted Income (Expense)	12,461	(119,108)
Increase in Unrestricted Net Assets	<u>1,172,699</u>	<u>479,628</u>
TEMPORARILY RESTRICTED NET ASSETS		
Donations	450,240	-
Net assets released from restrictions	<u>(227,190)</u>	<u>-</u>
Increase in Temporarily Restricted Net Assets	<u>223,050</u>	<u>-</u>
Net assets at beginning of fiscal year	<u>502,643</u>	<u>23,015</u>
Net assets at end of fiscal year	<u>\$ 1,898,392</u>	<u>\$ 502,643</u>

See accompanying notes to financial statements.

KIPP NEW ORLEANS
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash Flows from Operating Activities:		
Increase in net assets	\$ 1,395,749	\$ 479,628
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Asset impairment loss on hurricane damage	-	119,108
Depreciation expense	14,894	-
(Increase) decrease in operating assets:		
Accounts/grants receivable	(631,721)	(271,564)
Prepaid expenses	(5,120)	(14,815)
Other assets	(245)	-
Increase (decrease) in operating liabilities:		
Accounts payable	512,952	50,115
Due to KIPP Foundation	19,783	-
	<u>1,306,292</u>	<u>362,472</u>
Cash Flows from Investing Activities:		
Purchase of property and equipment	<u>(301,398)</u>	<u>(119,108)</u>
Net cash (used in) investing activities	<u>(301,398)</u>	<u>(119,108)</u>
Net increase in cash and cash equivalents	1,004,894	243,364
Cash and Cash Equivalents, Beginning of Fiscal Year	<u>266,379</u>	<u>23,015</u>
Cash and Cash Equivalents, End of Fiscal Year	<u><u>\$ 1,271,273</u></u>	<u><u>\$ 266,379</u></u>

See accompanying notes to financial statements.

KIPP NEW ORLEANS
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2007

	<u>PROGRAM SERVICES</u>	<u>SUPPORT SERVICES</u>	<u>Total</u>
	<u>Instructional</u>	<u>Management And General</u>	
Expenses:			
Salaries	\$ 2,208,520	\$ 475,458	\$ 2,683,978
Payroll taxes and benefits	460,362	186,499	646,861
Materials and supplies	442,488	69,389	511,877
Food service	278,074	-	278,074
Books	219,877	-	219,877
Repairs and maintenance	38,881	109,902	148,783
Custodial	-	145,667	145,667
Purchased professional services	71,349	63,823	135,172
Transportation	126,568	2,953	129,521
Travel	3,199	121,190	124,389
Utilities	-	91,332	91,332
Miscellaneous	27,513	56,550	84,063
Insurance	-	59,458	59,458
Telephone	23,431	19,050	42,481
Meals and entertainment	18,794	3,281	22,075
Equipment rental	-	15,597	15,597
Depreciation expense	-	14,894	14,894
Board expenses	-	9,986	9,986
Advertising	1,935	5,079	7,014
KIPP licensing	-	4,783	4,783
Dues and fees	-	1,709	1,709
Printing	85	309	394
	<u>\$ 3,921,076</u>	<u>\$ 1,456,909</u>	<u>\$ 5,377,985</u>

See accompanying notes to financial statements.

KIPP NEW ORLEANS
NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2007 and 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

KIPP New Orleans ("KIPP New Orleans") was incorporated in the spring of 2005 for the purpose of operating charter schools in New Orleans. KIPP New Orleans was created to provide students with knowledge, skills, and character traits necessary to succeed in competitive high schools, college, and life. The State Board of Elementary and Secondary Education has granted KIPP New Orleans three (3) Type 5 charters to operate KIPP Believe College Prep (previously KIPP Phillips Preparatory), KIPP McDonogh 15 School for the Creative Arts, and KIPP Central City Academy. In addition, the KIPP New Orleans School Support Center ("SSC") provides support to each of the schools in the areas of development, operations, finance, academics, recruitment, and planning. All KIPP New Orleans schools and the SSC are governed by the KIPP New Orleans Board of Directors.

Basis of Accounting

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

Functional Expenses

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

Income Tax Status

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

Public Support and Revenue

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

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

KIPP NEW ORLEANS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Years Ended June 30, 2007 and 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

unrestricted support. KIPP New Orleans uses the direct write-off method of writing off uncollectible receivables.

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

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

Estimates

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

Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows, KIPP New Orleans considers all unrestricted, highly liquid investments with an initial maturity of less than three months as cash and cash equivalents.

Basis of Presentation

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

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

KIPP NEW ORLEANS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Years Ended June 30, 2007 and 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Property and Equipment

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

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

NOTE B - CASH AND CASH EQUIVALENTS AND INVESTMENTS

At June 30, 2007 and 2006, cash and cash equivalents consisted of deposits with financial institutions with carrying balances of \$1,271,273 and \$266,379, respectively.

At June 30, 2007 and 2006, KIPP New Orleans did not hold any investments.

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

At June 30, 2007 and 2006, KIPP New Orleans's deposits (bank balances) totaled \$1,399,831 and \$171,067, respectively. These deposits are secured from risk by \$100,000 of federal deposit insurance. The remaining balance of \$1,299,831 and \$71,067 as of June 30, 2007 and 2006 was unsecured and uninsured.

KIPP NEW ORLEANS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Years Ended June 30, 2007 and 2006

NOTE C - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Due to/from other funds at June 30, 2007 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
KIPP Believe	KIPP McDonogh 15	\$ 6,883
KIPP McDonogh 15	KIPP Believe	1,371
KIPP McDonogh 15	School Support Center	5,771
KIPP McDonogh 15	KIPP Central City	26
School Support Center	KIPP Believe	<u>39,107</u>
 Total		 <u>\$ 53,158</u>

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

Interfund transfers during the year ended June 30, 2007 were as follows:

<u>"Revenue" Fund</u>	<u>"Expense" Fund</u>	<u>Amount</u>
School Support Center	KIPP Believe	\$ 39,107
School Support Center	KIPP McDonogh 15	<u>178,794</u>
 Total		 <u>\$ 217,901</u>

NOTE D - PROPERTY AND EQUIPMENT

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

	<u>2007</u>	<u>2006</u>
Furniture, fixtures, and equipment	\$ 35,533	\$ -
Leasehold improvements	265,865	-
Less accumulated depreciation	<u>(14,894)</u>	<u>-</u>
 Property and equipment, net	 <u>\$286,504</u>	 <u>\$ -</u>

Depreciation expense for KIPP New Orleans for the years ended June 30, 2007 and 2006 was \$14,894 and \$-0-, respectively.

During the years ended June 30, 2007 and 2006, KIPP New Orleans acquired \$301,398 and \$119,108 in property and equipment. The property acquired in the year ended June 30, 2006 was either impaired or lost as a result of hurricane damage. A loss from asset impairment of \$119,108 is recorded in the Statement of Activities for the year ended June 30, 2006.

KIPP NEW ORLEANS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Years Ended June 30, 2007 and 2006

NOTE E - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2007 and 2006 are available for the following purposes:

	2007	2006
School supplies, equipment, and support	\$ 38,214	\$ -
Board and support services	184,836	-
	\$ 223,050	\$ -

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by donors during the year in the amounts of \$227,190 and \$-0- for the years ended June 30, 2007 and 2006, respectively.

NOTE F - RETIREMENT PLANS

Substantially all employees of KIPP New Orleans are members of either a statewide retirement system or an employer sponsored 403(b) retirement plan. Employees of McDonogh 15 are members of the Teachers' Retirement System of Louisiana. Employees of KIPP Believe are participants in the employer sponsored 403(b) plan. Pertinent information relative to each plan follows:

Teachers' Retirement System of Louisiana (TRSL)

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

Funding Policy. Plan members are required to contribute 8.0 percent, 9.1 percent, and 5.0 percent of their annual covered salary for the Regular Plan, Plan A, and Plan B, respectively. KIPP New Orleans is required to contribute at an actuarially determined rate. The current rate is 15.9 percent of annual covered payroll for all three membership plans. Member contributions and employer's contributions for the TRSL are established by state law and rates are established by the Public Retirement Systems' Actuarial Committee. KIPP New Orleans's employer contribution for the TRSL, as provided by state law, is funded by the State of Louisiana through annual appropriations and by remittance from KIPP New Orleans. KIPP New Orleans's contributions to the TRSL for the years ending June 30, 2007 and 2006 were \$314,221 and \$62,887, respectively, which was equal to the required contributions for the year.

KIPP NEW ORLEANS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Years Ended June 30, 2007 and 2006

NOTE F - RETIREMENT SYSTEMS (CONTINUED)

403(b) Plan

Plan Description. KIPP Believe has a 403(b) deferred compensation plan covering substantially all employees. Covered employees may elect to contribute a portion of their salaries as allowable. KIPP Believe elected to contribute 3% of covered employees' salaries as contributions. KIPP Believe's contributions were \$3,253 and \$2,361 for the years ended June 30, 2007 and 2006, respectively.

NOTE G - COMPENSATED ABSENCES

KIPP New Orleans allows each employee ten days of annual leave each school year. Annual leave can be accumulated without limitation. Upon termination, retirement or death, unused accumulated annual leave benefits are not paid to the employee. However, under Teachers' Retirement System of Louisiana and Louisiana School Employees Retirement System, allowable unpaid personal leave is used in the retirement benefit computation as earned service.

NOTE H - CONTINGENCIES

At June 30, 2007 and 2006, KIPP New Orleans was not a defendant or co-defendant in any lawsuits arising from the normal course of operations.

SUPPLEMENTAL INFORMATION

KIPP NEW ORLEANS
STATEMENTS OF ACTIVITIES BY SCHOOL
For the Years Ended June 30, 2007 and 2006

	2007				2006	
	KIPP Believe	McDonogh 15	KIPP Central City	KIPP N.O. - School Support	Interfund Eliminations	Total
UNRESTRICTED NET ASSETS						
Public Support and Other Revenues						
Unrestricted grants in aid - State	\$ 559,877	\$ 2,477,396	\$ -	\$ -	\$ -	\$ 3,037,273
Restricted grants in aid - Federal and State	401,540	1,425,499	49,339	-	-	1,876,378
Donations	586,904	524,234	-	11,268	-	1,122,406
Miscellaneous revenue	4,284	270,692	-	217,901	(217,901)	274,976
Total Public Support and Other Revenues	1,552,605	4,697,821	49,339	229,169	(217,901)	6,311,033
Net Assets Released from Restrictions	-	213,116	-	14,074	-	227,190
Restrictions satisfied by payments	-	-	-	-	-	-
Total support, revenues and reclassifications	1,552,605	4,910,937	49,339	243,243	(217,901)	6,538,223
Expenses						
Program services:						
Instructional	769,210	3,151,866	-	-	-	3,921,076
Supporting services:						
Management and general	267,275	1,132,297	31,995	243,243	(217,901)	1,456,909
Total Expenses	1,036,485	4,284,163	31,995	243,243	(217,901)	5,377,985
Other unrestricted income (expense)	-	-	-	-	-	(119,108)
Asset impairment loss on hurricane damage	12,456	3	2	-	-	12,461
Other	12,456	3	2	-	-	12,461
Total other unrestricted income (expense)	12,456	3	2	-	-	12,461
Increase in unrestricted net assets	528,576	626,777	17,346	-	-	1,172,699
TEMPORARILY RESTRICTED NET ASSETS						
Donations	-	251,330	-	198,910	-	450,240
Net assets released from restrictions	-	(213,116)	-	(14,074)	-	(227,190)
Increase in temporarily restricted net assets	-	38,214	-	184,836	-	223,050
Net assets at beginning of fiscal year	202,777	299,866	-	-	-	502,643
Net assets at end of fiscal year	\$ 731,353	\$ 964,857	\$ 17,346	\$ 184,836	\$ -	\$ 1,898,392
						\$ 502,643

See accompanying notes to financial statements.

PERFORMANCE STATISTICAL DATA

REBOWE & COMPANY

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

Board of Directors of
KIPP New Orleans
New Orleans, Louisiana

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

Our procedures and findings are as follows:

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

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

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

2. We reconciled the total number of full-time classroom teachers per the schedule "Experience of Public Principals, Assistant Principals, and Full-time Classroom Teachers" (Schedule K-4) to the combined total number of full-time classroom teachers per this schedule and to school board supporting payroll records as of October 1, 2006.
3. We reconciled the combined total of principals and assistant principals per the schedule "Experience of Public Principals, Assistant Principals, and Full-time Classroom Teachers" (Schedule K-4) to the combined total of principals and assistant principals per this schedule.
4. We obtained a list of principals, assistant principals, and full-time teachers by classification as of October 1, 2006 and as reported on the schedule. We traced a random sample of 25 teachers to the individual's personnel file and determined that the individual's education level was properly classified on the schedule.

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

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

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

6. We obtained a list of principals, assistant principals, and full-time teachers by classification as of October 1, 2006 and as reported on the schedule and traced the same sample used in procedure 4 to the individual's personnel file and determined that the individual's experience was properly classified on the schedule.

Public Staff Data (Schedule K-5)

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

Class Size Characteristics (Schedule K-6)

9. We obtained a list of classes by school, school type, and class size as reported on the schedule and reconciled school type classifications to Schedule K-3 data, as obtained in procedure 5. We then traced a random sample of 10 classes to the October 1, 2006 roll

books for those classes and determined that the class was properly classified on the schedule.

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

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

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

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

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

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

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

Rebowe & Company

December 19, 2007

KIPP NEW ORLEANS
New Orleans, LA

Schedule K-1

General Fund Instructional and Support Expenditures
Certain Local Revenue Sources
For the Year Ended June 30, 2007

General Fund Instructional and Equipment Expenditures

General fund instructional expenditures:

Teacher and student interaction activities:

Classroom teacher salaries	\$	1,050,861	
Other instructional staff activities		262,715	
Employee benefits		273,812	
Purchased professional and technical services		42,437	
Instructional materials and supplies		208,521	
Less instructional equipment		54,661	
		<u>54,661</u>	
Total teacher and student interaction activities	\$		1,893,007

Other instructional activities 296,170

Pupil support activities 98,405
 Less equipment for pupil support activities
 Net pupil support activities 98,405

Instructional Staff Services 44,583
 Less equipment for instructional staff services
 Net instructional staff services 44,583

Total general fund instructional expenditures \$ 2,035,995

Total general fund equipment expenditures \$

Certain Local Revenue Sources

Local taxation revenue:

Constitutional ad valorem taxes	\$	
Renewable ad valorem tax		
Debt service ad valorem tax		-
Up to 1% of collections by the Sheriff on taxes other than school taxes		
Sales and use taxes		
Total local taxation revenue	\$	<u></u>

Local earnings on investment in real property:

Earnings from 16th section property	\$	
Earnings from other real property		
Total local earnings on investment in real property	\$	<u></u>

State revenue in lieu of taxes:

Revenue sharing—constitutional tax	\$	
Revenue sharing—other taxes		
Revenue sharing—excess portion		-
Other revenue in lieu of taxes		
Total state revenue in lieu of taxes	\$	<u></u>

Nonpublic textbook revenue \$

Nonpublic transportation revenue \$

Category	Full-time Classroom Teachers				Principals and Assistant Principals			
	Certificated		Uncertificated		Certificated		Uncertificated	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Less than a Bachelor's Degree		0%						
Bachelor's Degree	21	84%	11	100%	4	57%		
Master's Degree	4	16%			3	43%		
Master's Degree +30								
Specialist in Education								
Ph. D. or Ed. D.								
Total	25	100%	11	100%	7	100%		

KIPP NEW ORLEANS
New Orleans, LA

Schedule K-3

Number and Type of Public Schools
For the Year Ended June 30, 2007

Type	2007
	Number
Elementary	1
Middle/Jr. High	1
Secondary	
Combination	
Total	2

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

KIPP NEW ORLEANS
New Orleans, LA

Schedule K-4

Experience of Public Principals, Assistant Principals, and Full-Time Classroom Teachers
As of October 1, 2006

	0-1 Yr.	2-3 Yrs.	4-10 Yrs.	11-14 Yrs.	15-19 Yrs.	20-24 Yrs.	25+ Yrs.	Total
Assistant Principals		2	1		1	1		5
Principals			1		1			2
Classroom Teachers	15	10	8	1		1	1	36
Total	15	12	10	1	2	2	1	43

KIPP NEW ORLEANS
New Orleans, LA

Schedule K-5

Public School Staff Data
For the Year Ended June 30, 2007

2007	All Classroom Teachers	Classroom Teachers Excluding ROTC And Rehired Retirees
Average Classroom Teachers' Salary Including Extra Compensation	\$41,878	\$41,117
Average Classroom Teacher's Salary Excluding Extra Compensation	\$41,878	\$43,074
Number of Teacher Full-time Equivalents (FTEs) used in Computation of Average Salaries	0	0

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

KIPP NEW ORLEANS
New Orleans, LA

Schedule K-6

Class Size Characteristics
As of October 1, 2006

School Type	Class Size Range							
	1 - 20		21 - 26		27 - 33		34+	
	Percent	Number	Percent	Number	Percent	Number	Percent	Number
Elementary	14%	12	63%	52	20%	17	2%	2
Elementary Activity Classes								
Middle/Jr. High	4%	1	96%	24				
Middle/Jr. High Activity Classes								
High								
High Activity Classes								
Combination								
Combination Activity Classes								

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

KIPP NEW ORLEANS
New Orleans, LA

Schedule K-7

Louisiana Educational Assessment Program (LEAP) for the 21st Century
For the Year Ended June 30, 2007

Students	English Language Art		Mathematics		Science		Social Studies	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Grade 4								
Advanced	1	2%	2	4%	1	2%	2	4%
Mastery	9	20%	7	16%	5	11%	7	16%
Basic	15	33%	18	40%	16	36%	29	64%
Approaching Basic	17	38%	15	33%	19	42%	5	11%
Unsatisfactory	3	7%	3	7%	4	9%	2	4%
Total	45	100%	45	100%	45	100%	45	100%

Students	English Language Art		Mathematics		Science		Social Studies	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Grade 8								
Advanced	0	0%	3	13%	0	0%	0	0%
Mastery	5	21%	3	13%	2	8%	1	4%
Basic	8	33%	13	54%	7	29%	9	38%
Approaching Basic	7	29%	4	17%	10	42%	6	25%
Unsatisfactory	4	17%	1	4%	5	21%	8	33%
Total	24	100%	24	100%	24	100%	24	100%

KIPP NEW ORLEANS, INC.

Schedule K-9

New Orleans, LA

Integrated Louisiana Educational Assessment Program (ILEAP)

For the Years Ended June 30, 2007

KIPP Believe (KIPP Phillips Preparatory)

Students	English		Mathematics		Science		Social Studies	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Grade 5								
Advanced	1	1%	1	1%	0	0%	1	1%
Mastery	6	7%	5	6%	2	2%	12	13%
Basic	47	53%	39	44%	14	16%	47	53%
Approaching Basic	23	26%	23	26%	34	38%	18	20%
Unsatisfactory	12	13%	21	24%	39	44%	11	12%
Total	89	100%	89	100%	89	100%	89	100%

KIPP McDonogh 15

Students	English		Mathematics		Science		Social Studies	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Grade 3								
Advanced	2	4%	3	6%	2	4%	1	2%
Mastery	6	12%	4	8%	2	4%	5	10%
Basic	16	33%	26	53%	18	37%	23	47%
Approaching Basic	18	37%	11	22%	18	37%	14	29%
Unsatisfactory	7	14%	5	10%	9	18%	6	12%
Total	49	100%	49	100%	49	100%	49	100%

Students	English		Mathematics		Science		Social Studies	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Grade 5								
Advanced	2	4%	4	8%	2	4%	2	4%
Mastery	6	12%	7	14%	2	4%	4	8%
Basic	22	43%	19	37%	17	33%	19	37%
Approaching Basic	10	20%	8	16%	17	33%	13	25%
Unsatisfactory	11	22%	13	25%	13	25%	13	25%
Total	51	100%	51	100%	51	100%	51	100%

Students	English		Mathematics		Science		Social Studies	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Grade 6								
Advanced	0	0%	0	0%	0	0%	0	0%
Mastery	1	2%	5	11%	5	11%	3	6%
Basic	25	53%	28	60%	20	43%	19	40%
Approaching Basic	13	28%	6	13%	17	36%	15	32%
Unsatisfactory	8	17%	8	17%	5	11%	10	21%
Total	47	100%	47	100%	47	100%	47	100%

(Continued)

KIPP NEW ORLEANS
New Orleans, Louisiana

Schedule K-9

Integrated Louisiana Educational Assessment Program (iLEAP)
For the Years Ended June 30, 2007

KIPP McDenogh 15

Students	English		Mathematics		Science		Social Studies	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Grade 7								
Advanced	0	0%	2	7%	0	0%	0	0%
Mastery	2	7%	4	14%	7	25%	4	14%
Basic	17	61%	13	46%	13	46%	15	54%
Approaching Basic	2	7%	3	11%	5	18%	4	14%
Unsatisfactory	7	25%	6	21%	3	11%	5	18%
Total	28	100%	28	100%	28	100%	28	100%

(Concluded)

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

REBOWE & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS
CONSULTANTS

A PROFESSIONAL CORPORATION

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
KIPP New Orleans
New Orleans, Louisiana

We have audited the Financial Statements of Financial Position and the related Statements of Activities and Cash Flows of KIPP New Orleans, as of and for the years ended June 30, 2007 and 2006, and the Statement of Functional Expenses for the year ended June 30, 2007 which collectively comprise KIPP New Orleans' basic financial statements and have issued our report thereon dated December 27, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether KIPP New Orleans' 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 one instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 07-01.

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

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

Rebowe & Company

December 27, 2007

REBOWE & COMPANY

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CONSULTANTS

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

Board of Directors
KIPP New Orleans
New Orleans, Louisiana

Compliance

We have audited the compliance of KIPP New Orleans (a nonprofit organization) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. KIPP New Orleans' major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of KIPP New Orleans' management. Our responsibility is to express an opinion on KIPP New Orleans' compliance based on our audit.

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

In our opinion, KIPP New Orleans 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, 2007.

Internal Control Over Compliance

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

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

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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. 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 of the Audit Committee, management, Board of Directors, the Legislative Auditor of the State of Louisiana, and federal awarding agencies and pass-through entities and is not intended to be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Rebowe & Company

December 19, 2007

KIPP NEW ORLEANS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2007

<u>Federal Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Education:		
Passed-through Louisiana		
Department of Education		
Title Vb Innovative Education*	84.298	\$ 576,472
Title II Improving Teacher Quality	84.367	10,216
Title I Local Educational Agencies*	84.010	757,936
IDEA Preschool	84.173	<u>140,669</u>
Total U.S. Department of Education		<u>1,485,293</u>
U.S. Department of Agriculture		
Passed-through Louisiana		
Department of Education		
National School Lunch Program*	10.555	<u>311,244</u>
Total U.S. Department of Agriculture		<u>311,244</u>
U.S. Department of Homeland Security		
FEMA Disaster Assistance	97.036	<u>25,157</u>
Total U.S. Department of Homeland Security		<u>25,157</u>
Total Expenditures of Federal Awards		<u>\$1,821,694</u>

*Identified as a major program.

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

KIPP NEW ORLEANS
NOTES TO THE SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS
Year Ended June 30, 2007

NOTE A - BASIS OF ACCOUNTING

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

KIPP NEW ORLEANS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007

A. SUMMARY OF THE AUDITOR'S RESULTS

- The Auditor's Report expresses an unqualified opinion on the financial statements of KIPP New Orleans (the "Organization").
- No reportable conditions relating to the audit of the financial statements are reported in the *Independent Auditor's 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*.
- One instance of noncompliance material to the financial statements of KIPP New Orleans, which is required to be reported in accordance with *Government Auditing Standards*, was disclosed and identified as Finding 07-01.
- No reportable conditions relating to the audit of the major federal award programs are reported in the *Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133*.
- The Auditor's Report on compliance for the major federal award programs for the Organization expresses an unqualified opinion on all major federal programs.
- There were no findings that are required to be reported under Section 501(a) of OMB Circular A-133.
- A management letter was not issued for the year ended June 30, 2007.
- The programs tested as major programs for the fiscal year ended June 30, 2007 were:

Department of Education

Title Vb	CFDA # 84.298
Title I	CFDA # 84.010

Department of Agriculture

National School Lunch	CFDA # 10.555
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- The threshold for distinguishing between Type A and Type B programs was \$300,000.
- KIPP New Orleans does not qualify as a low-risk auditee.

KIPP NEW ORLEANS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2007

B - FINDINGS - FINANCIAL STATEMENT AUDIT

COMPLIANCE

Finding 07-01 Deposit Collateral

Condition:

We noted that the bank deposits administered by one of KIPP New Orleans' fiscal agents were uncollateralized by approximately \$1,299,831.

Criteria:

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

Effect:

KIPP New Orleans is in violation of state law.

Cause:

KIPP New Orleans did not proceed with plans to secure their funds with their fiscal agent.

Recommendation:

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

Response:

See Management's Corrective Action Plan for their response.

KIPP NEW ORLEANS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND
QUESTIONED COSTS
For the Year Ended June 30, 2007

FINDINGS - FINANCIAL STATEMENT AUDIT

There was one prior year finding related to financial statements for the year ended June 30, 2006. Finding 06-01 was the same as current year finding 07-01.

MANAGEMENT LETTER

A management letter was not issued for the year ended June 30, 2006.

**KIPP NEW ORLEANS
CORRECTIVE ACTION PLAN FOR CURRENT YEAR AUDIT FINDINGS
AND QUESTIONED COSTS
For the Year Ended June 30, 2007**

Finding 07-01 - Deposit Collateral

Recommendation:

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

Corrective Action:

Management will negotiate a contract with its fiscal agent stipulating that deposits must be fully insured or collateralized.

Implementation Date:

Immediately.

Contact:

Jonathan Bertsch, Director of Cluster Operations, (504) 905-7311