

KIPP STAR COLLEGE PREP CHARTER SCHOOL
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

**KIPP STAR COLLEGE PREP CHARTER SCHOOL
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2009 AND 2008**

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	2
STATEMENTS OF ACTIVITIES	3
STATEMENTS OF FUNCTIONAL EXPENSES	4
STATEMENTS OF CASH FLOWS	6
NOTES TO FINANCIAL STATEMENTS	7
INDEPENDENT AUDITORS' 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	14



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INDEPENDENT AUDITORS' REPORT

Board of Trustees
KIPP STAR College Prep Charter School
New York, New York

We have audited the accompanying statement of financial position of KIPP STAR College Prep Charter School (a nonprofit organization) as of June 30, 2009, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of KIPP STAR College Prep Charter School's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of KIPP STAR College Prep Charter School as of June 30, 2008, were audited by other auditors whose report dated October 23, 2008, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of KIPP STAR College Prep Charter School as of June 30, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2009 on our consideration of KIPP STAR College Prep Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and 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 considered in assessing the results of our audit.

LarsonAllen LLP

Blue Bell, Pennsylvania
October 21, 2009

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**KIPP STAR COLLEGE PREP CHARTER SCHOOL
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2009 AND 2008**

	2009	2008
ASSETS		
Cash	\$ 1,123,034	\$ 1,167,752
Grants and Contracts Receivable	60,131	31,399
Property and Equipment	100,814	243,061
Prepaid Expenses and Other Assets	19,984	16,857
Due from Related Parties	157,919	-
Total Assets	\$ 1,461,882	\$ 1,459,069
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 90,196	\$ 89,796
Due to Related Parties	-	111,442
Refundable Advances	37,586	108,635
Capital Lease Obligations	51,951	52,934
Total Liabilities	179,733	362,807
NET ASSETS		
Unrestricted	1,282,149	1,096,262
Total Liabilities and Net Assets	\$ 1,461,882	\$ 1,459,069

See accompanying Notes to Financial Statements.

**KIPP STAR COLLEGE PREP CHARTER SCHOOL
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2009 AND 2008**

	2009		2008	
	Unrestricted	Temporarily Restricted	Total	Temporarily Restricted
OPERATING REVENUE				
State and Local Per Pupil Operating Revenue	\$ 3,534,211	-	\$ 3,534,211	\$ -
Government Grants and Contracts	134,011	-	134,011	-
Total Operating Revenue	<u>3,668,222</u>	<u>-</u>	<u>3,668,222</u>	<u>-</u>
OPERATING EXPENSES				
Program Services	3,425,243	-	3,425,243	-
School Operations	3,425,243	-	3,425,243	-
Total Program Services				
Supporting Services	233,350	-	233,350	-
Management and General	17,157	-	17,157	-
Fundraising	250,507	-	250,507	-
Total Supporting Services				
Total Operating Expenses	<u>3,675,750</u>	<u>-</u>	<u>3,675,750</u>	<u>-</u>
School Operating Deficit	(7,528)	-	(7,528)	-
Other Revenue:				
Contributions and Other Grants	168,000	-	168,000	-
Interest and Other Income - Net	25,415	-	25,415	-
Donated Services	-	-	-	-
Net Assets Released from Restrictions	-	-	-	-
CHANGE IN NET ASSETS	185,887	-	185,887	(120,614)
Net Assets - Beginning of Year	1,096,262	-	1,096,262	-
NET ASSETS - END OF YEAR	<u>\$ 1,282,149</u>	<u>\$ -</u>	<u>\$ 1,282,149</u>	<u>\$ -</u>

See accompanying Notes to Financial Statements.

**KIPP STAR COLLEGE PREP CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2009**

	2009				Total Expenses
	Program Services	Supporting Services			
	School Operations	Management & General	Fund Raising	Total	
Salaries	\$ 2,304,933	\$ 180,201	\$ 16,393	\$ 196,594	\$ 2,501,527
Payroll Taxes and Employee Benefits	405,428	32,970	764	33,734	439,162
Equipment	73,552	3,494	-	3,494	77,046
Professional Fees	8,039	(2,336)	-	(2,336)	5,703
Contracted Services - Other	77,990	2,106	-	2,106	80,096
Supplies	46,717	4,798	-	4,798	51,515
Instructional Materials	39,897	-	-	-	39,897
Telephone and Internet	12,971	131	-	131	13,102
Insurance	35,114	1,275	-	1,275	36,389
Food	18,181	37	-	37	18,218
Field Lessons	152,826	-	-	-	152,826
Staff Development	34,114	10,674	-	10,674	44,788
Fees and Other	13,052	-	-	-	13,052
Academic Programming	24,893	-	-	-	24,893
Licensing Fee	30,000	-	-	-	30,000
Depreciation and Amortization	147,536	-	-	-	147,536
Total Functional Expenses	\$ 3,425,243	\$ 233,350	\$ 17,157	\$ 250,507	\$ 3,675,750
Total Number of Students					254
Average Cost Per Student					\$ 14,471

See accompanying Notes to Financial Statements.

**KIPP STAR COLLEGE PREP CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2008**

	2008				
	Program Services	Supporting Services			Total Expenses
	School Operations	Management & General	Fund Raising	Total	
Salaries	\$ 2,263,288	\$ 174,651	\$ 83,777	\$ 258,428	\$ 2,521,716
Payroll Taxes and Employee Benefits	377,360	31,999	5,377	37,376	414,736
Equipment	65,381	839	-	839	66,220
Professional Fees	5,625	61,463	-	61,463	67,088
Contracted Services - Other	114,929	4,626	5,688	10,314	125,243
Supplies	33,636	4,395	1,086	5,481	39,117
Instructional Materials	44,735	-	4	4	44,739
Telephone and Internet	28,992	128	-	128	29,120
Insurance	39,110	-	-	-	39,110
Food	25,322	46	22	68	25,390
Field Lessons	225,237	-	-	-	225,237
Staff Development	83,152	18,378	1,284	19,662	102,814
Fees and Other	4,601	-	168	168	4,769
Academic Programming	53,742	-	-	-	53,742
Licensing Fee	30,000	-	-	-	30,000
Depreciation and Amortization	71,363	-	-	-	71,363
Total Functional Expenses	<u>\$ 3,466,473</u>	<u>\$ 296,525</u>	<u>\$ 97,406</u>	<u>\$ 393,931</u>	<u>\$ 3,860,404</u>
Total Number of Students					279
Average Cost Per Student					\$ 13,837

See accompanying Notes to Financial Statements.

**KIPP STAR COLLEGE PREP CHARTER SCHOOL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2009 AND 2008**

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 185,887	\$ (120,614)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	147,536	71,363
Adjustment to the Cost of Equipment	25,200	-
(Increase) Decrease in Assets:		
Grants and Contracts Receivable	(28,732)	212,268
Prepaid Expenses and Other Assets	(3,127)	39,460
Due from Related Parties	(157,919)	-
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Expenses	400	(2,331)
Due to Related Parties	(111,442)	95,459
Refundable Advances	(71,049)	(16,399)
Net Cash Provided (Used) by Operating Activities	(13,246)	279,206
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Equipment	-	(38,714)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Capital Lease Obligations	(31,472)	(38,847)
NET INCREASE (DECREASE) IN CASH	(44,718)	201,645
Cash - Beginning of Year	1,167,752	966,107
CASH - END OF YEAR	\$ 1,123,034	\$ 1,167,752
 Supplemental Disclosure of Cash Flow Information:		
Cash Paid for Interest	\$ 3,001	\$ 3,984
 Supplemental Schedule of Noncash Investing and Financing Activity:		
Purchase of Equipment Financed by Capital Lease	\$ 36,962	\$ 41,815

See accompanying Notes to Financial Statements.

**KIPP STAR COLLEGE PREP CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

KIPP STAR College Prep Charter School (the "School") is an education corporation that operates as a charter school in the borough of Manhattan (Harlem), New York City. On March 25, 2003, the Board of Regents of the University of the State of New York for and on behalf of the State Education Department granted the School a provisional charter valid for a term of five years from the effective date of March 25, 2003 and renewable upon expiration. After a review process on March 11, 2008, the charter was renewed for a full five-year term expiring on March 25, 2013.

The School's mission is to equip students with the academic and character skills necessary to succeed in high school, college and the competitive world beyond.

In fiscal years 2009 and 2008, the School operated classes for students in grades five through eight.

The major source of revenue and support for the School is from state and local funding on per pupil basis. The New York City Department of Food Services provides free and reduced-price lunches and the New York City Department of Transportation provides transportation vouchers directly to a majority of the School's students. Amounts with respect to these items are not included in these financial statements.

Basis of Accounting

The financial statements of the School have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

Financial Statement Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-For-Profit Organizations. Under SFAS No. 117, the School is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets are not restricted by donors or the donor-imposed restrictions have expired. Temporarily restricted net assets contain donor-imposed restrictions that permit the School to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by action of the School. Permanently restricted net assets contain donor-imposed restrictions that stipulate the resources be maintained permanently but permit the School to use or expend part or all of the income derived from the restricted assets for either specified or unspecified purposes. The School only has unrestricted net assets.

**KIPP STAR COLLEGE PREP CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits.

Governmental Funding

Revenue from the state and local governments resulting from the School's charter status and based on the number of students enrolled is recorded when services are performed in accordance with the charter agreement. Federal and state funds are recognized by the School when expenditures are incurred and billable.

Revenue from other government grants to which the School is entitled is recognized mostly on student enrollment. Some grants are provided for specific educational endeavors which are not based on student enrollment and are recorded when related expenditures are incurred by the School.

Federal and state funds received prior to the services provided or the related expenditures being incurred are deferred and recorded as refundable advances.

Contributed Services

Contributed services are recorded at their fair value when such services are rendered. Contributed services are recognized as contributions if the services: (a) create or enhance nonfinancial assets or (b) required specialized skills and are performed by people with those skills and would otherwise be purchased by the School and (c) are measurable. Legal services were provided by individuals to the School at no charge. The value of such contributed legal services for the year ended June 30, 2009 and 2008 amounted to \$-0- and \$28,335, respectively and is included in donated services and professional fees in the accompanying financial statements.

A number of volunteers have made a contribution of their time to the School. These in-kind contributions have not been reflected in the financial statements since they do not meet the criteria for recognition under Statement of Financial Accounting Standards, No. 116 ("SFAS 116"), *Accounting for Contributions Received and Contributions Made*.

Property and Equipment

Property and equipment is recorded at cost. The School capitalizes purchases of equipment in excess of \$2,500. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. Property and equipment acquired with certain government contract funds are recorded as expenses when the grantor retains title.

**KIPP STAR COLLEGE PREP CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (Continued)

Fixed assets acquired under capital leases are recorded in equipment with corresponding obligations carried in liabilities. The amount capitalized is the lower of the present value of the minimum lease payments or the fair value of the leased asset. Amortization on assets leased under capital leases is recorded on a straight-line basis over the estimated useful life of the asset or the term of the lease, depending on the criteria used to capitalize the lease.

Expense Allocation

The costs of providing services have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated to the program and support services benefited.

Concentration of Credit Risk

The School maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits.

Income Taxes

The School is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Service Code and applicable income tax regulations of the State of New York. No provision for income taxes has been established, as the School has no unrelated business activity.

In July 2006, the Financial Accounting Standards Board (the "FASB") issued interpretation No. 48, Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109 ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return. The cumulative effect of applying the provisions of FIN 48, if any, will be reported as an adjustment to the opening balance of net assets for the fiscal year of adoption. Additional disclosures about the amounts of such liabilities will also be required. In February 2008, the FASB delayed the effective date of FIN 48 for certain nonpublic enterprises to annual financial statements for fiscal years beginning after December 15, 2007. In October 2008, the FASB further delayed the effective date for an additional year for certain nonpublic enterprises. The School will be required to adopt FIN 48 in its June 30, 2010 financial statements. The adoption of FIN 48 is not expected to have a material impact on the School's financial position, change in net assets or cash flows.

The School has elected to defer application of FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes." The School follows Financial Accounting Standard No. 5 "Accounting for Contingencies" for evaluating uncertain tax positions.

**KIPP STAR COLLEGE PREP CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments

On July 1, 2008, the School adopted Statement of Financial Accounting Standard No. 157, Fair Value Measurements (SFAS 157). As permitted, adoption of SFAS 157 has been delayed for certain nonfinancial assets and nonfinancial liabilities to July 1, 2009. SFAS 157 applies to reported balances that are required or permitted to be measured at fair value under an existing accounting pronouncement. The School currently does not measure any of its assets or liabilities at fair value and therefore there is no impact on the adoption of this standard.

The School also was able to adopt Statement of Financial Accounting Standard No. 159, The Fair Value Option for Financial Assets and Liabilities (SFAS 159) on July 1, 2008. SFAS 159 allows entities the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on an instrument-by-instrument basis. The School has not elected to measure any existing financial instruments at fair value at July 1, 2008, as permitted under SFAS 159. However, the School may elect to measure newly acquired financial instruments at fair value in the future.

Subsequent Events

In preparing these financial statements, the School has evaluated events and transactions for potential recognition or disclosure through October 21, 2009, the date the financial statements were available to be issued.

NOTE 2 RELATED PARTY TRANSACTIONS

The Knowledge is Power Program Foundation (“KIPP Foundation”) is a national, nonprofit organization that trains school leaders to open and run academically rigorous public schools.

The School is a member of KIPP Foundation’s KIPP Network of Schools and, as such, is eligible for a range of benefits and fee-based services.

The School has entered into a trademark license agreement with KIPP Foundation subject to a license fee of 1% per pupil operating revenue not to exceed \$30,000. The School incurred licensing fees amounting to \$30,000 for each of the years ended June 30, 2009 and 2008.

The back-office functions are centralized and handled by KIPP NYC’s shared services team, whose salaries are paid by KIPP Academy Charter School. A portion of the costs of the shared services salaries are allocated to and reimbursed by the School. Amounts due to related parties represent short-term timing differences of pending settlements. The Schools also share common membership on their Board of Directors.

**KIPP STAR COLLEGE PREP CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 3 PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	2009	2008
Furniture and Fixtures	\$ 28,495	\$ 28,495
Technology	375,304	442,284
Equipment	62,390	62,390
Leasehold Improvements	6,342	6,342
Total	472,531	539,511
Less: Accumulated Depreciation	(371,717)	(296,450)
Total Property and Equipment	\$ 100,814	\$ 243,061

Property and equipment includes copiers acquired under capital leases. As of June 30, 2009 and 2008, the leased copiers were reflected at a cost of \$73,154 and \$147,972, respectively, as well as related accumulated amortization amounting to \$21,203 and \$87,679, respectively.

NOTE 4 PENSION EXPENSE

The School provides for a defined contribution pension where the School matches twenty percent of the employee's contribution up to \$1,000. The total employer contribution for the years ended June 30, 2009 and 2008 were \$13,763 and \$5,270, respectively.

NOTE 5 SCHOOL FACILITY

The School occupies 24,000 square feet of space in its original facility since inception. The School has an agreement with the New York City Department of Education for this dedicated and shared space at P.S. 125, a New York City public school, located at West 123rd Street, New York City, New York. The School is responsible for any overtime-related costs for services provided beyond regular opening hours. These costs have been included in contracted services in the accompanying statement of functional expenses.

NOTE 6 OPERATING EXPENSES

Operating expenses are presented in the statement of functional expenses classified according to the significant program activity related to the purpose for which the school exists or supporting service.

The significant activities are:

School Operations

Represents work (time and materials) that is specifically related to or necessary for the programming aspects of the School. The activities and related costs directly affecting students or parents fall under this program.

**KIPP STAR COLLEGE PREP CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 6 OPERATING EXPENSES (CONTINUED)

The significant supporting services are:

Management and General

Represents work (time and materials) that is specifically related to running the nonprogrammatic/back-end operational functions of the School including but not limited to human resources, finance, technology and payroll.

Fundraising

Represents work (time and materials) associated with the School's fund-raising efforts including but not limited to annual mailings, donor meetings and events.

NOTE 7 CAPITAL LEASE OBLIGATION

The School leases two copiers under capital leases expiring in July 2011 and October 2012. The lease requires monthly payments of principal and interest ranging from \$941 to \$969, at imputed interest rates of 11.31% per annum.

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2010	\$ 22,920
2011	22,904
2012	11,628
2013	3,385
Total	<u>60,837</u>
Less: Amount Representing Interest	8,886
Present Value of Minimum Lease Payments	<u>\$ 51,951</u>

NOTE 8 CONTINGENCY

Certain grants and contracts may be subject to audit by the funding sources. Such audits might result in disallowances of costs submitted for reimbursement. Management is of the opinion that such cost disallowances, if any, will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been provided in the accompanying financial statements for such potential claims.

**INDEPENDENT AUDITORS' 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 Trustees
KIPP STAR College Prep Charter School
New York, New York

We have audited the financial statements of KIPP STAR College Prep Charter School (the "School") as of and for the year ended June 30, 2009, and have issued our report thereon dated October 21, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A 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 School'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 School's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control over financial reporting.

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 School's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain other matters that we reported to the management of KIPP STAR College Prep Charter School in a separate letter dated October 21, 2009.

This report is intended solely for the information and use of the audit committee, board of trustees, management, the New York State Education Department and the Board of Regents of the University of the State of New York and is not intended to be and should not be used by anyone other than these specified parties.



LarsonAllen LLP

Blue Bell, Pennsylvania
October 21, 2009