

**KIPP STAR COLLEGE PREP CHARTER SCHOOL**

**FINANCIAL STATEMENTS**

**YEARS ENDED JUNE 30, 2010 AND 2009**

**KIPP STAR COLLEGE PREP CHARTER SCHOOL  
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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 statements of financial position of KIPP STAR College Prep Charter School (a nonprofit organization) as of June 30, 2010 and 2009, and the related statements of activities, functional expenses, and cash flows for the years 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 audits.

We conducted our audits 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 audits provide 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, 2010 and 2009, and the changes in its net assets and its cash flows for the years 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 18, 2010 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*

**LarsonAllen LLP**

Blue Bell, Pennsylvania  
October 18, 2010

**KIPP STAR COLLEGE PREP CHARTER SCHOOL  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2010 AND 2009**

	2010	2009
<b>ASSETS</b>		
Cash	\$ 1,029,789	\$ 1,123,034
Grants and Contracts Receivable	154,078	60,131
Property and Equipment	54,389	100,814
Prepaid Expenses and Other Assets	103,388	19,984
Due from Related Parties	-	157,919
	\$ 1,341,644	\$ 1,461,882
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts Payable and Accrued Expenses	\$ 142,207	\$ 90,196
Due to Related Parties	34,621	-
Refundable Advances	110,745	37,586
Capital Lease Obligations	33,995	51,951
Total Liabilities	321,568	179,733
<b>NET ASSETS</b>		
Unrestricted	1,020,076	1,282,149
Total Liabilities and Net Assets	\$ 1,341,644	\$ 1,461,882

See accompanying Notes to Financial Statements.

**KIPP STAR COLLEGE PREP CHARTER SCHOOL  
STATEMENTS OF ACTIVITIES  
YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>OPERATING REVENUE</b>		
State and Local Per Pupil Operating Revenue	\$ 4,122,613	\$ 3,534,211
Government Grants and Contracts	127,080	134,011
Total Operating Revenue	<u>4,249,693</u>	<u>3,668,222</u>
<b>OPERATING EXPENSES</b>		
Program Services		
School Operations	<u>4,445,092</u>	<u>3,425,243</u>
Total Program Services	4,445,092	3,425,243
Supporting Services		
Management and General	406,253	233,350
Fundraising	-	17,157
Total Supporting Services	<u>406,253</u>	<u>250,507</u>
Total Operating Expenses	<u>4,851,345</u>	<u>3,675,750</u>
School Operating Deficit	(601,652)	(7,528)
Other Revenue:		
Contributions and Other Grants	315,268	168,000
Interest and Other Income - Net	<u>24,311</u>	<u>25,415</u>
<b>CHANGE IN NET ASSETS</b>	(262,073)	185,887
Net Assets - Beginning of Year	<u>1,282,149</u>	<u>1,096,262</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 1,020,076</u>	<u>\$ 1,282,149</u>

See accompanying Notes to Financial Statements.



**KIPP STAR COLLEGE PREP CHARTER SCHOOL  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2010 AND 2009**

	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ (262,073)	\$ 185,887
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Depreciation and Amortization	46,423	147,536
Adjustment to the Cost of Equipment	-	25,200
(Increase) Decrease in Assets:		
Grants and Contracts Receivable	(93,947)	(28,732)
Prepaid Expenses and Other Assets	(83,404)	(3,127)
Due from Related Parties	157,919	(157,919)
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Expenses	52,011	400
Due to Related Parties	34,621	(111,442)
Refundable Advances	73,159	(71,049)
Net Cash Used by Operating Activities	(75,291)	(13,246)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal Payments on Capital Lease Obligations	(17,954)	(31,472)
<b>NET DECREASE IN CASH</b>	(93,245)	(44,718)
Cash - Beginning of Year	1,123,034	1,167,752
<b>CASH - END OF YEAR</b>	\$ 1,029,789	\$ 1,123,034
Supplemental Disclosure of Cash Flow Information:		
Cash Paid for Interest	\$ 5,301	\$ 3,001
Supplemental Schedule of Noncash Investing and Financing Activity:		
Purchase of Equipment Financed by Capital Lease	\$ -	\$ 36,962

See accompanying Notes to Financial Statements.

**KIPP STAR COLLEGE PREP CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009**

**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 year 2009, the School operated classes for students in grades five through eight. In fiscal year 2010, the School added grade nine.

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.

**Financial Statement Presentation**

The financial statements of the School have been prepared on the accrual basis of accounting in accordance with established accounting standards for not for profit entities. The School is required to report information regarding its financial position and activities in 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 activities and net assets.

**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.

**KIPP STAR COLLEGE PREP CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

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 accounting standards for contributions.

**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.

Equipment 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.

**KIPP STAR COLLEGE PREP CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

Effective July 1, 2009 the School adopted the guidance in the income tax standard regarding the recognition and measurement of uncertain tax positions. The guidance clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements. The guidance further prescribes recognition and measurement of tax provisions taken or expected to be taken on a tax return that are not certain to be realized. The adoption of this standard had no impact on the School's financial statements. The School's tax returns for the years 2007, 2008, and 2009 are open for federal and state tax examinations.

**Subsequent Events**

In preparing these financial statements, the School has evaluated events and transactions for potential recognition or disclosure through October 18, 2010, 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 per elementary school, middle school or high school. The School incurred licensing fees amounting to \$35,527 and \$30,000 for the years ended June 30, 2010 and 2009, respectively.

For the year ended June 30, 2010, the back-office functions are centralized and handled by KIPP NYC, LLC shared services team. The School paid a management fee to LLC in the amount of \$406,253 for the year ended June 30, 2010. For the year ended June 30, 2009, the shared services team was operated through KIPP NYC and a portion of the costs of the shared services salaries were allocated to and reimbursed by the school. Amounts due to related parties represent short-term timing differences of pending settlements. The Schools also share some common membership on their Board of Directors.

The School received grants from KIPP NYC in the amounts of \$93,600 and \$0 for the years ended June 30, 2010 and 2009, respectively.

**KIPP STAR COLLEGE PREP CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009**

**NOTE 3 PROPERTY AND EQUIPMENT**

Property and equipment consists of the following:

	<u>2010</u>	<u>2009</u>
Furniture and Fixtures	\$ 28,495	\$ 28,495
Technology	375,304	375,304
Equipment	62,390	62,390
Leasehold Improvements	6,342	6,342
Total	<u>472,531</u>	<u>472,531</u>
Less: Accumulated Depreciation	<u>(418,142)</u>	<u>(371,717)</u>
Total Property and Equipment	<u>\$ 54,389</u>	<u>\$ 100,814</u>

**NOTE 4 CAPITAL LEASE OBLIGATION**

The School leases two copiers under capital leases expiring in July 2011 and October 2012. As of June 30, 2010 and 2009, the leased copiers were reflected at a cost of \$73,154, as well as related accumulated amortization amounting to \$39,159 and \$21,203, respectively. 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, 2010 under the capital leases are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2011	22,912
2012	11,620
2013	3,385
Total	<u>37,917</u>
Less: Amount Representing Interest	<u>3,922</u>
Present Value of Minimum Lease Payments	<u>\$ 33,995</u>

**NOTE 5 PENSION EXPENSE**

The School provides for a defined contribution pension where the School matches fifty percent of the employee's contributions. The total employer contribution for the years ended June 30, 2010 and 2009 were \$49,592 and \$13,763, respectively.

**KIPP STAR COLLEGE PREP CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009**

**NOTE 6 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 123<sup>rd</sup> 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 7 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**

This 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.

The significant supporting services are:

**Management and General**

Time and materials relating to operating the non-programmatic/back-end operational functions of the School are reflected as management and general expenses. These expenses include, but are not limited to, human resources, finance, and technology activities.

**Fundraising**

Represents work (time and materials) associated with the School's fund-raising program including but not limited to annual mailings, donor meeting and events. The fundraising expenses were incurred by KIPP NYC, LLC during this 2010 fiscal year.

**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, 2010, and have issued our report thereon dated October 18, 2010. 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

### **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 18, 2010.

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*

**LarsonAllen LLP**

Blue Bell, Pennsylvania  
October 18, 2010

# LarsonAllen<sup>®</sup> LLP

CPAs, Consultants & Advisors  
www.larsonallen.com

Audit Committee and Management  
KIPP STAR Charter School  
New York, New York

In planning and performing our audit of the financial statements of KIPP STAR Charter School as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered KIPP STAR Charter School's internal control over financial reporting (internal control) 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 organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the organization's internal control.

During our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated October 18, 2010, on the financial statements of KIPP STAR Charter School.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various organization personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

## **Current Year Comments**

### **Retention of Certifications**

During the audit, we noted that the teacher personnel files did not have documentation of certification. The School is required to report the number of certified teachers to the State Department of Education on an annual basis. It is important that documentation supporting this number be maintained in the personnel files or a separate certification document file.

#### *Management Response:*

We have deliberately chosen to not include this documentation in each teacher's file because certification status often changes and all documentation is readily available online through the NY State TEACH system. We maintain thorough and up-to-date certification documentation consistent with applicable state rules and regulations. Four times annually, human resources staff confirms the certification status of each teacher. The results of these checks are compiled and maintained in standard templates and shared with school principals and other relevant management.

### **Review and Approval of Bank Reconciliations**

It is important that someone outside of the bank reconciliation process review and approve the bank reconciliations on a monthly basis. Currently, the bank reconciliations are prepared electronically. We recommend that once prepared, the reconciliation be forwarded for review and have the reviewer initial and date the reconciliation electronically.

#### *Management Response:*

Consistent with this recommendation, bank reconciliations are currently prepared by the Controller and reviewed by the Director of Finance. This process will be carefully maintained going forward. In the past, our bank reconciliation process was not consistently as rigorous.



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**Year-end Closing Procedures and Final Trial Balances**

During the audit, the closing process was marked by delays from the original scheduled deadline due to account reconciliations not being completed before the start of audit fieldwork. In addition, we noted that various schedules supporting year-end account balances were not prepared in advance of our arrival for audit fieldwork. The result was a delay in producing a final trial balance and financial reports needed by management and the auditors. It was also noted client prepared adjustments were needed to adjust and reconcile account balances during and after the final audit fieldwork. These areas included accounts receivable, revenue, due to/from accounts, deferred revenue, and net assets. We believe that the year-end closing could proceed more quickly and smoothly if a more detailed monthly closing process was developed in which many of these accounts would be reviewed and updated instead of completing the process at year end, along with the preparation of supporting schedules. The result could reduce the time spent for the closing year end procedures and minimize the number of client prepared entries needed to adjust the balances.

*Management Response:*

The organization experienced a transition in the Controller position in the weeks prior to the beginning of fieldwork for the 2009-10 audit. For a significant period of time prior to the start of audit fieldwork, we did not have a full-time Controller on staff. As a result, we were delayed in producing the schedules and documentation required for the audit. Although we already have appropriate month-close procedures in place we will review them again in the coming year to identify opportunities for optimizing our process and outcomes.

**Prior Year Comments**

**Student File Completeness**

We reviewed student files to determine if they were eligible to attend the school. There were two instances in which proof of the child's existence (i.e. birth certificate or social security card) was not able to be located. This is part of the enrollment process and students should not be accepted without this information. We recommend that all information be filed in the students records when received to avoid misplacement.

*Current year update:*

This comment will remain for the current year. 3 student files were missing the residency and existence documentation.

*Management Response:*

Going forward student files will be checked periodically for completeness.

**Approval and Review of Journal Entries**

Our review of the general journal entries revealed that the entries lack approval by an employee who did not prepare the journal entry. We recommend the adoption of a policy whereby all non-standard and non-recurring journal entries be approved by a designated member of management other than those recording the entries. This is especially important because the system allows the deletion of entries as mentioned in the journal entry sequence comment below.

*Current year update:*

This comment will remain for the current year.

*Management Response:*

Going forward, we will take better care to ensure that there is an appropriate separation of duties between the person who enters and reviews non-standard and nonrecurring journal entries. Each review instance will be documented.

### **Update Accounting Policies**

There were several policies that we recommend be updated or added to the accounting manual

- Credit card policy for the use of points- There is no written policy in place. There is no suspected misuse of the points earned through business purchases, but we recommend a policy be implemented to prevent potential problems
- Process for writing off stale checks- The State policy for unclaimed payments should be reviewed and the process documented in the accounting manual.

#### *Current year update:*

Written policies have not been created for these items. This comment will remain for the current year.

#### *Management Response:*

We have drafted a new Fiscal Policies & Procedures Manual, which includes an updated asset capitalization amount as well as policies for the use of credit card points and writing off stale checks. The manual will be presented to the board for approval at the January 2011 board meeting.

### **Opening Balance Net Assets**

It was noted during the audit that adjustments were made to the internal financial statements after the prior year audit was issued. It is important that no changes be made after the audit report is finalized. Final internal balances should be reconciled with the audit report.

#### *Current year update:*

The opening balances of nets assets were properly adjusted by management. No additional entries were required

### **Blank Checks**

During the audit it was brought to our attention that signed blank checks are held at the school for field trips. This exposes the school to a significant amount of risk. We recommend that this process be discontinued immediately and alternative methods be used such as advance payments to venues or vendors, credit cards or reimbursement of costs.

#### *Current year update:*

The School is using the credit cards for purchases. They have eliminated the use of blank checks.

### **Accounts Payable and Accrued Expense Cutoff**

A detailed review should be made of invoices received after year end to determine if all accounts payable and accrued expenses have been captured. We performed a search for unrecorded expenses and identified additional expenses that should have been captured at year end. An adjusting entry was made to record these expenses.

#### *Current year update:*

This was resolved in the current year. Cutoff was proper.

### **Journal Entry Sequence**

During the audit we tested the journal entries made throughout the year. It came to our attention that there were gaps in the journal entry sequence. It appears that the accounting software allows entries to be deleted. We recommend that if an entry is made that needs to be corrected, a subsequent correcting entry should be made so that there is an appropriate audit trail.

*Current year update:*

Reversal of the entries is now being done by management.

**Board Minute Completeness**

There are instances in which an urgent vote of the board members may be required and an email vote is more convenient than holding a meeting. There were several instances in which there were email votes to approve significant transfers between the organizations. The results of these activities should be documented in the next board meeting minutes so that there is adequate documentation of significant decisions.

*Current year update:*

This was implemented in the current year. Email votes were documented.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various organization personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

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KIPP STAR Charter School's written response to the management letter comments identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, the audit committee, others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

*LarsonAllen LLP*

**LarsonAllen LLP**

Blue Bell, Pennsylvania  
October 18, 2010