

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

EXAMINATION REPORT

OF

KIPP LEAD COLLEGE PREPARATORY CHARTER SCHOOL

LAKE COUNTY, INDIANA

March 7, 2006 to June 30, 2007



FILED

05/13/2008

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Pushpam Srivastava	03-07-06 to 06-30-08
Principal	April Goble	03-07-06 to 06-30-08
President of the School Board	Martin Dezelan	06-13-06 to 06-30-08



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF KIPP LEAD COLLEGE PREPARATORY
CHARTER SCHOOL, LAKE COUNTY, INDIANA

We have examined the financial information presented herein of KIPP LEAD College Preparatory Charter School (School Corporation), for the period of March 7, 2006 to June 30, 2007. The School Corporation's management is responsible for the financial information presented herein. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial information presented herein and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the financial information referred to above present fairly, in all material respects, the financial information of the School Corporation for the years ended June 30, 2006 and 2007, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

The Schedule of Long-Term Debt, as listed in the Table of Contents, is presented for additional analysis and is not a required part of the basic financial information. The Schedule of Long-Term Debt has not been subjected to the examination procedures applied to the basic financial information and, accordingly, we express no opinion on it.

STATE BOARD OF ACCOUNTS

March 4, 2008

KIPP LEAD COLLEGE PREPARATORY CHARTER SCHOOL
 SCHEDULE OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
 For the Year Ended June 30, 2006

<u>Functions/Programs</u>	Net (Disbursement) Receipts and Changes in Net Assets
	Totals
Governmental activities:	
Instruction	\$ (16,546)
Support services	(21,486)
Total governmental activities	(38,032)
General receipts:	
Other local sources	235,826
Change in net assets	197,794
Net assets - beginning	-
Net assets - ending	\$ 197,794
 <u>Assets</u>	
Cash and investments	\$ 197,794
 <u>Net Assets</u>	
Unrestricted	\$ 197,794

The accompanying notes are an integral part of the financial information.

KIPP LEAD COLLEGE PREPARATORY CHARTER SCHOOL
SCHEDULE OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For the Year Ended June 30, 2007

<u>Functions/Programs</u>	<u>Disbursements</u>	<u>Operating Grants and Contributions</u>	<u>Net (Disbursement) Receipts and Changes in Net Assets</u>
			<u>Totals</u>
Governmental activities:			
Instruction	\$ 336,317	\$ 6,291	\$ (330,026)
Support services	639,943	42,284	(597,659)
Community services	6,383	-	(6,383)
Debt service	19,363	-	(19,363)
	<u>1,002,006</u>	<u>48,575</u>	<u>(953,431)</u>
Total governmental activities			
General receipts:			
Other local sources			42,216
State aid			251,180
Bonds and loans			428,916
Grants and contributions not restricted to specific programs			221,350
Sale of property, adjustments and refunds			469
Investment earnings			11,220
			<u>955,351</u>
Total general receipts			
			1,920
Change in net assets			
Net assets - beginning			<u>197,794</u>
Net assets - ending			<u>\$ 199,714</u>
<u>Assets</u>			
Cash and investments			<u>\$ 199,714</u>
<u>Net Assets</u>			
Unrestricted			<u>\$ 199,714</u>

The accompanying notes are an integral part of the financial information.

KIPP LEAD COLLEGE PREPARATORY CHARTER SCHOOL
SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2006

	<u>General</u>	<u>Walton Grant</u>	<u>Totals</u>
Receipts:			
Local sources	\$ 5,826	\$ 230,000	\$ 235,826
Disbursements:			
Current:			
Instruction	-	16,546	16,546
Support services	3,751	17,735	21,486
Total disbursements	<u>3,751</u>	<u>34,281</u>	<u>38,032</u>
Excess of receipts over disbursements	2,075	195,719	197,794
Cash and investments - beginning	<u>-</u>	<u>-</u>	<u>-</u>
Cash and investments - ending	<u>\$ 2,075</u>	<u>\$ 195,719</u>	<u>\$ 197,794</u>
<u>Cash and Investment Assets - Ending</u>			
Cash and investments	<u>\$ 2,075</u>	<u>\$ 195,719</u>	<u>\$ 197,794</u>
<u>Cash and Investment Fund Balance - Ending</u>			
Unrestricted	<u>\$ 2,075</u>	<u>\$ 195,719</u>	<u>\$ 197,794</u>

The accompanying notes are an integral part of the financial information.

KIPP LEAD COLLEGE PREPARATORY CHARTER SCHOOL
SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2007

	General	Walton Grant	Planning and Implementation Grant	School Lunch	Totals
Receipts:					
Local sources	\$ 53,437	\$ -	\$ -	\$ -	\$ 53,437
State sources	257,470	-	-	-	257,470
Federal sources	-	-	221,350	42,284	263,634
Bonds and loans	428,916	-	-	-	428,916
Sale of property, adjustments and refunds	469	-	-	-	469
Total receipts	<u>740,292</u>	<u>-</u>	<u>221,350</u>	<u>42,284</u>	<u>1,003,926</u>
Disbursements:					
Current:					
Instruction	288,730	47,587	-	-	336,317
Support services	429,218	105,457	62,984	42,284	639,943
Community services	956	5,427	-	-	6,383
Debt service	19,363	-	-	-	19,363
Total disbursements	<u>738,267</u>	<u>158,471</u>	<u>62,984</u>	<u>42,284</u>	<u>1,002,006</u>
Excess (deficiency) of receipts over disbursements	2,025	(158,471)	158,366	-	1,920
Cash and investments - beginning	<u>2,075</u>	<u>195,719</u>	<u>-</u>	<u>-</u>	<u>197,794</u>
Cash and investments - ending	<u>\$ 4,100</u>	<u>\$ 37,248</u>	<u>\$ 158,366</u>	<u>\$ -</u>	<u>\$ 199,714</u>
<u>Cash and Investment Assets - Ending</u>					
Cash and investments	<u>\$ 4,100</u>	<u>\$ 37,248</u>	<u>\$ 158,366</u>	<u>\$ -</u>	<u>\$ 199,714</u>
<u>Cash and Investment Fund Balance - Ending</u>					
Unrestricted	<u>\$ 4,100</u>	<u>\$ 37,248</u>	<u>\$ 158,366</u>	<u>\$ -</u>	<u>\$ 199,714</u>

The accompanying notes are an integral part of the financial information.

KIPP LEAD COLLEGE PREPARATORY CHARTER SCHOOL
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

School Corporation, as used herein, shall include, but is not limited to, school townships, school towns, school cities, consolidated school corporations, joint schools, metropolitan school districts, township school districts, county schools, united schools, school districts, cooperatives, educational service centers, community schools, community school corporations, and charter schools.

The School Corporation was established under the laws of the State of Indiana. The School Corporation operates under a Board of School Trustees form of government and provides educational services.

Note 2. Fund Accounting

A. Government-Wide and Fund Financial Schedules

Government-Wide Financial Schedules

The Schedule of Activities and Net Assets - Cash and Investment Basis displays information about the reporting government as a whole. They include all funds of the reporting entity. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues.

Fund Financial Schedules

Fund financial schedules of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, fund equity, receipts, and disbursements. Major individual governmental funds are reported as separate columns in the fund financial schedules.

The School Corporation reports the following major governmental funds:

The general fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Walton grant fund is used to account for a startup grant which requires the School Corporation to participate in an evaluation of student achievement that is being conducted on behalf of the Walton Family Foundation by CREDO of the Hoover Institution at Stanford University. Participation in this evaluation will involve use of a software package that will be provided at no charge and timely submission of reporting data one to two times annually. The Walton Family Foundation will not consider grants to schools that are unwilling to participate in this evaluation. If a startup grant is awarded, future eligibility for any subsequent grants will depend on participation in this evaluation.

The planning and implementation grant fund is to be used toward charter school planning activities that include professional development of staff and board members, training, supplies, evaluation, and monitoring.

The school lunch fund accounts for financial resources of the school lunch program.

KIPP LEAD COLLEGE PREPARATORY CHARTER SCHOOL
NOTES TO FINANCIAL INFORMATION
(Continued)

B. Measurement Focus and Basis of Accounting

The government-wide and governmental fund financial schedules are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The cash and investment basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather than when a liability is incurred. Investment transactions are not presented on the financial schedules.

If the School Corporation utilized the basis of accounting recognized as generally accepted, the fund financial schedules for governmental funds would use the modified accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial schedules.

Note 3. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the School Corporation in June and December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively.

Note 4. Deposits and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statute (IC 5-13-9) authorizes the School Corporation to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

KIPP LEAD COLLEGE PREPARATORY CHARTER SCHOOL
NOTES TO FINANCIAL INFORMATION
(Continued)

Note 5. Pension Plans

A. Public Employees' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system, and give the School Corporation authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of PERF.

B. Teachers' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Teachers' Retirement Fund (TRF), a defined benefit pension plan. TRF is a cost-sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All employees engaged in teaching or in the supervision of teaching in the public schools of the State of Indiana are eligible to participate in TRF. State statute (IC 5-10.2) governs, through the TRF Board, most requirements of the system, and gives the School Corporation authority to contribute to the plan. The TRF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The School Corporation may elect to make the contributions on behalf of the member.

KIPP LEAD COLLEGE PREPARATORY CHARTER SCHOOL
NOTES TO FINANCIAL INFORMATION
(Continued)

TRF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Teachers' Retirement Fund
150 West Market Street
Indianapolis, IN 46204
Ph. (317) 232-3860

Funding Policy and Annual Pension Cost

The School Corporation contributes the employer's share to TRF for certified employees employed under a federally funded program and all the certified employees hired after July 1, 1995. The School Corporation currently receives partial funding, through the school funding formula, from the State of Indiana for this contribution. The employer's share of contributions for certified personnel who are not employed under a federally funded program and were hired before July 1, 1995, is considered to be an obligation of, and is paid by, the State of Indiana.

Note 6. KIPP Foundation License Agreement

The KIPP LEAD College Preparatory Charter School (licensee) entered a trademark license agreement with KIPP Foundation (licensor), a California public benefit corporation. The licensor was established to create and support schools that provide educationally underserved students with the knowledge, skills, and character needed to succeed in top-quality high schools, colleges and the competitive world beyond. KIPP LEAD College Preparatory Charter School's educational philosophy is implemented through adherence to its five pillars: (1) High Expectations; (2) Choice and Commitment; (3) More Time on Task; (4) Power to Lead; and (5) Focus on Results.

As consideration for the licensing to it of the "Marks" (trademarks, service marks, design marks, trade names, domain names, etc.), licensee shall pay to licensor an annual fee of 1% of the state and local per pupil funding that it receives, directly or indirectly, but not to exceed \$30,000.

Note 7. Subsequent Events

Reassessment and Property Taxes

In accordance with state statutes, all counties were required to reassess property values prior to billing taxes in 2007. Significant delays in the reassessment process have resulted in delays in billing taxes in 2007. Tax bills were mailed on December 11, 2007 through December 26, 2007, for the spring and fall installments, normally due in May and November. The taxes were due and payable in one installment with a due date of January 31, 2008. Officials anticipate receipt of the taxes collected sometime in March 2008; however, some advances have already been received.

KIPP LEAD COLLEGE PREPARATORY CHARTER SCHOOL
NOTES TO FINANCIAL INFORMATION
(Continued)

Common School Fund Loans

On November 1, 2007, the School Corporation entered an agreement with the Indiana Common School Fund for a 20 year, 4% loan in the amount of \$33,869.

On December 6, 2007, the School Corporation entered an agreement with the Indiana Common School Fund for a 20 year, 4% loan in the amount of \$295,140.

KIPP LEAD COLLEGE PREPARATORY CHARTER SCHOOL
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 June 30, 2007

The School Corporation has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental Activities:		
Notes and loans payable	\$ 418,193	\$ 19,090

KIPP LEAD COLLEGE PREPARATORY CHARTER SCHOOL
EXAMINATION RESULTS AND COMMENTS

PETTY CASH FUND

The School Corporation had a \$300 Petty Cash Fund. The Petty Cash Fund did not have receipts or other documentation for all transactions.

Pushpam Srivastava, Treasurer, was requested to reimburse the School Corporation the \$300. Pushpam Srivastava reimbursed the \$300 to the School Corporation on February 20, 2008.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

SERVICE AND TIME RECORDS

Employee time, attendance, or service records were not presented for examination.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

OFFICIAL BOND

The official bond for Pushpam Srivastova, Business Manager, was not filed in the Office of the County Recorder.

Indiana Code 5-4-1-5.1(b) states in part: "Every elected or appointed officer, official, deputy, or employee of a political subdivision . . . shall file the bond in the office of the county recorder . . ."

KIPP LEAD COLLEGE PREPARATORY CHARTER SCHOOL
EXAMINATION RESULTS AND COMMENTS
(Continued)

DISBURSEMENT DOCUMENTATION

Payments were observed during a review of accounts payable vouchers which did not contain adequate supporting documentation as follows:

- (1) Five payments (18%) were made from the incorrect fund. For example, payments for milk or meals were paid from the General Fund instead of the School Lunch Fund.
- (2) Two (7%) accounts payable vouchers were not presented for review.
- (3) Sixteen (57%) cancelled checks or optical images of the cancelled checks were not on file at the School Corporation.

The School Corporation Treasurer requested the sixteen cancelled check optical images from the bank. The bank assessed a service fee of \$5 for each check image provided. Neither the cancelled checks nor optical images for all other checks issued in 2007 were presented for review.

Due to the lack of supporting information, the validity and accountability for some monies disbursed could not be established.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Indiana Code 5-15-6-3 states in part: ". . . 'original records' includes the optical image of a check . . ."

The State Board of Accounts is of the audit position both sides of a check are part of the original record. Therefore, both sides of an "optical imaged check" should be available for public inspection and audit. Encoding, printing or bank certification should exist to ascertain that the back side of a check is part of a particular check, i.e., endorsements belong to the front side of a check presented. (The School Administrator and Uniform Compliance Guidelines, Volume 141, Page 6)

KIPP LEAD COLLEGE PREPARATORY CHARTER SCHOOL
EXIT CONFERENCE

The contents of this report were discussed on March 4, 2008, with Pushpam Srivastava, Treasurer; April Goble, Principal; and Martin Dezelan, President of the School Board. The official response has been made a part of this report and may be found on page 17.

KIPP: LEAD

College Prep Charter School

KIPP: LEAD College Preparatory Charter School
State Board of Accounts Audit and Review: **Official Response**

This document has been written in response to the State Board of Accounts Audit of the 2006-2007 Fiscal Period for KIPP: LEAD College Preparatory Charter School. This response is reflective of School Leader April Goble, Board Chair Martin Dezelan, and officer examined, Treasurer Pushpam Srivastava.

Petty Cash Fund

Petty cash in the amount of \$300 was expended during a weeklong professional development weekend in August 2006 to cover transportation expenses. However, the receipts of said expenses could not be located within the audit period but have been requested by the transportation and shuttle provider, and documentation will be provided to the school. Treasurer Pushpam Srivastava has reimbursed the \$300 until receipt copies are delivered to the school for documentation and recording purposes. No petty cash outside of the \$300 requested for the professional development trip has been withdrawn.

Bond Record

In the first year of operation (the period examined – 2006/2007), KIPP: LEAD maintained an executed bond for Treasurer Pushpam Srivastava. The school was not aware of properly recording said bond with the County Recorder and at the notification during the audit period, the school has taken proper steps in resolving this issue.

Service Records

KIPP: LEAD did not employ any hourly or part time employees during the audit period. All salaried employees are made aware of proper sick and personal leave upon hire, and any delinquency in attendance is resolved through the school leader. Hourly logs and attendance records will now be maintained to cover all full time and part time staff.

Disbursement of funds

1. While KIPP: LEAD maintains outsourced accounting records through Bookkeeping Plus, Inc. the school maintains the responsibility and integrity of all records and will ensure the proper allocation of food service expenses. As a new school becoming familiar with proper Indiana accounting standards, we collaborate frequently with our bookkeeping provider to ensure all records are maintained to SBOA policies. The misguided allocation of lunch funds will be corrected through Bookkeeping Plus, Inc. and checked for accuracy.
2. Two checks were handwritten by the School Leader April Goble to Daniel Weisman (fundraiser reimbursement) and Soenda Howell (payroll). These two checks were written before an agreement with both Paychex and Bookkeeping Plus, Inc. could be finalized and controls were set in place. Once controls were set in place, both individuals received proper 990 documentation for tax purposes, and all checks disbursed since then have the proper vouchers and authorizations associated with each expensed item. Carbon copies of said checks were provided to the auditor.
3. KIPP: LEAD is in the process of requesting all 2007 check images maintained at Chase Bank. **It should be noted that all check images requested by SBOA were submitted to the auditor after reprints from Chase Bank were made available, and every check tested matched the expense recorded in KIPP: LEAD's financial statements and board approved expenses.**


April Goble
School Leader