



Dave Yost • Auditor of State



**KIPP JOURNEY ACADEMY  
FRANKLIN COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

KIPP Journey Academy  
Franklin County  
1406 Myrtle Avenue  
Columbus, Ohio 43211

To the Board of Directors:

We have audited the accompanying basic financial statements of the KIPP Journey Academy, Franklin County, Ohio (the Academy), as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 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 the KIPP Journey Academy, Franklin County, Ohio, as of June 30, 2010, and the changes in its financial position and its cash flows for the year 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 June 3, 2011, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.


Accounting principles generally accepted in the United States of America require this presentation to include *Management's Discussion and Analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

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We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the Academy's basic financial statements taken as a whole. The federal awards receipts and expenditures schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The federal awards receipts and expenditures schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State

June 3, 2011

**KIPP JOURNEY ACADEMY  
FRANKLIN COUNTY**

**Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2010  
Unaudited**

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The management's discussion and analysis of KIPP Journey Academy's (the "Academy"), financial performance provides an overall review of Academy's financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance. The 2010 fiscal year was the second full year of operations with students.

**Financial Highlights**

- Net Assets increased \$287,509
- Operating revenues accounted for \$790,385 in revenue or 35.5% of all revenues.
- Non-operating revenues accounted for \$1,434,987 in revenue or 64.5% of all revenues.

**Using these Basic Financial Statements**

This financial report consists of three parts – management's discussion and analysis, the basic financial statements and the notes to the financial statements. These statements are organized so the reader can understand the financial position of the Academy. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The statement of net assets represents the statement of position of the Academy. The statement of revenues, expenses and changes in net assets presents increases (e.g., revenue) and decreases (e.g., expenses) in net total assets. The statement of cash flows reflects how the Academy finances and meets its cash flow needs. Finally, the notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided on the basic financial statements.

**Reporting the Academy Financial Activities**

***Statement of Net Assets, Statement of Revenue, Expenses, and Changes in Net Assets and the Statement of Cash Flows***

These documents look at all financial transactions and ask the question, "How did we do financially during 2010?" The statement of net assets and the statement of revenue, expenses and changes in net assets answer this question. These statements include *all assets, liabilities, revenue and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Academy's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the Academy as a whole, the *financial position* of the Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 7 and 8 of this report. The statement of cash flows can be found on page 9.

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes to the basic financial statements can be found on pages 10-21 of this report.

**KIPP JOURNEY ACADEMY  
FRANKLIN COUNTY**

**Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2010  
Unaudited**

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The following tables represent the Academy's condensed financial information for 2010 compared to 2009:

	<u>2010</u>	<u>2009</u>
Current assets	\$ 343,532	\$ 102,526
Capital assets, net	<u>364,738</u>	<u>268,509</u>
Total assets	<u>708,270</u>	<u>371,035</u>
Current liabilities	93,871	-
Noncurrent liabilities	<u>21,617</u>	<u>65,762</u>
Total liabilities	<u>115,488</u>	<u>65,762</u>
Net assets		
Invested in capital assets	343,121	268,509
Restricted	101,552	-
Unrestricted	<u>148,109</u>	<u>36,764</u>
Total net assets	<u>\$ 592,782</u>	<u>\$ 305,273</u>

Results as of June 30, 2010 indicate an ending net asset balance of \$592,782, an increase of \$287,509 from fiscal 2009. Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2010, the Academy's assets exceeded liabilities by \$592,782

At year-end, capital assets represented 51% of total assets. Capital assets consisted of leasehold improvements and furniture and equipment items. Capital Assets are used to provide services to students and are not available for future spending.



**KIPP JOURNEY ACADEMY  
FRANKLIN COUNTY**

**Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2010  
Unaudited**

Changes in Net Assets – The following table shows the changes in net assets for the fiscal year 2010 compared to 2009:

	Change in Net Assets	
	2010	2009
Operating Revenues:		
Foundation	\$ 776,713	\$ 404,515
Fees	13,672	7,074
Total revenues	790,385	411,589
Expenses:		
Personal services	773,763	623,131
Purchased Services	733,824	610,745
Supplies and Materials	387,292	81,166
Depreciation	41,505	29,834
Total expenses	1,936,384	1,344,876
Operating Loss	(1,145,999)	(933,287)
Non Operating Revenues		
Donations	648,983	1,159,894
Federal & State Grants	786,004	67,525
Interest (expense) income, net	(1,479)	5
	1,433,508	1,227,424
Change in Net Assets	287,509	294,137
Net Assets Beginning of Year	305,273	11,136
Net Assets End of Year	\$ 592,782	\$ 305,273

The Academy operates as a business-type enterprise fund. Results of fiscal year 2010, indicates an increase in net assets of \$287,509 and ending net assets of \$592,782. Fiscal 2010 was the Academy's first year of operations providing services to Grade 6 students. The FTE's for 2009 was 64 students while the FTE for fiscal 2010 was 131 students. The Academy was organized in fiscal 2007 and operated in fiscal 2007 and fiscal 2008 through grants and donations in the amount \$264,805, while incurring start-up cost in the amount of \$253,669.

**Budgeting**

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in the Ohio Revised Code Chapter 5705, unless specifically provided by the Academy's contract with its sponsor. The contract between the Academy's and its sponsor, Thomas B. Fordham Foundation, does not prescribe a budgetary process for the Academy.

**Capital Assets**

At June 30, 2010, the Academy had donated leasehold improvements in the amount of \$360,684. These improvements are being depreciated over the life of the lease of the building that KIPP is leasing under a 10 year operating lease from the Columbus Public Schools. Total depreciation expense for 2010 was \$41,505.

**KIPP JOURNEY ACADEMY  
FRANKLIN COUNTY**

**Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2010  
Unaudited**

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**Debt**

On December 17, 2009, the Academy signed a \$15,000 promissory note agreement with the KIPP Foundation to repay previous expenses incurred by the Academy. As of June 30, 2010 the Academy has repaid \$7,500 of this amount.

On September 22, 2009 the Academy entered in a capital lease agreement for copier equipment which valued at \$23,762. Principal and interest payments were \$2,145 and \$1,479, respectively.

**Economic Factors**

The Academy receives approximately 98.3% of its operating revenue from the Ohio Department of Education. Additionally, approximately 99% of all revenues are from the Ohio Department of Education or from grants and donations. As such the Academy is economically dependent on these two revenue sources.

**Operations**

The Academy is a legally separate non-profit corporation served by an appointed nine-member board of Directors and meets the definition of a community school under chapter 3314.01 of the Ohio Revised Code. The Academy is a student-focused community where all students develop the intellectual, academic, and social skills needed to understand and take action on issues they encounter in everyday life. In a rigorous, safe, and personalized learning environment, a culture of responsibility and service is fostered, empowering and equipping all learners to become more active and engaged citizens. The Academy offers education for Ohio Children in the fifth through sixth grade. The Academy may lease or acquire facilities as needed and contract for any services necessary for operations of the Academy.

The Academy contracted with The Educational Service Center of Central Ohio (ESCCO), for management services including management of personnel and human resources, technology, data management, financial reporting, compliance issues, budgets, and contracts for the fiscal year July 1, 2009 through June 30, 2010.

**Request for Information**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Academy's finances and to show its accountability for the money it receives. If you have questions about this report or need additional information, contact Alan R. Hutchinson, Treasurer of The Educational Service Center of Central Ohio.

**KIPP JOURNEY ACADEMY  
FRANKLIN COUNTY**

**STATEMENT OF NET ASSETS  
JUNE 30, 2010**

**ASSETS:**

**Current Assets:**

Cash and cash equivalents	\$ 170,278
Intergovernmental receivable	169,432
Prepaid assets	3,822
<b>Total Current Assets</b>	<b>343,532</b>

**Non-Current Assets:**

Depreciable capital assets, net of accumulated depreciation	364,738
<b>TOTAL ASSETS</b>	<b>708,270</b>

**LIABILITIES:**

Current Liabilities:

Accounts payable	66,894
Due to other governments	6,311
Accrued wages	13,166
Line of credit payable	7,500

Long-term Liabilities:

Due within one year	4,015
Due in more than one year	17,602

<b>TOTAL LIABILITIES</b>	<b>115,488</b>
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**NET ASSETS:**

Invested in capital assets	343,121
Restricted for Building Renovation	100,000
Restricted for Federal grants	1,552
Unrestricted	148,109
	<b>592,782</b>

<b>TOTAL NET ASSETS</b>	<b>\$ 592,782</b>
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The notes to the basic financial statements are an integral part of this statement.

**KIPP JOURNEY ACADEMY  
FRANKLIN COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

<b>Operating Revenues:</b>	
Foundation	\$ 776,713
Charges for services and other	13,672
<b>Total operating revenues</b>	<u>790,385</u>
<b>Operating Expenses:</b>	
Personal services	773,763
Purchased services	733,824
Supplies and materials	387,292
Depreciation	41,505
<b>Total operating expenses</b>	<u>1,936,384</u>
<b>Operating loss</b>	<u>(1,145,999)</u>
<b>Nonoperating revenues and expenses:</b>	
Donations and capital contributions	648,983
Federal & State grants	786,004
Interest expense	(1,479)
<b>Net nonoperating revenues</b>	<u>1,433,508</u>
<b>Change in net assets</b>	287,509
<b>Net assets at beginning of year</b>	305,273
<b>Net assets end of the year</b>	<u>\$ 592,782</u>

The notes to the basic financial statements are an integral part of this statement.

**KIPP JOURNEY ACADEMY  
FRANKLIN COUNTY**

**STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

<b>Cash flows from operating activities:</b>	
Cash received for foundation payments	\$ 785,683
Cash received for fees	13,672
Cash payments for personal services	(782,338)
Cash payments purchased services	(710,785)
Cash payments for supplies and materials	(372,984)
<b>Net cash flows used for operating activities</b>	<u>(1,066,752)</u>
 <b>Cash flows from noncapital financing activities</b>	
Donations	586,642
Federal & State grant monies received	627,239
<b>Net cash provided by noncapital financing activities</b>	<u>1,213,881</u>
 <b>Cash flows from capital and related financing activities:</b>	
Acquisition of capital assets	(51,631)
Principal paid on capital lease	(2,145)
Interest paid on capital lease	(1,479)
<b>Net cash used by capital and related financing activities</b>	<u>(55,255)</u>
<b>Net increase in cash and cash equivalents</b>	91,874
<b>Cash and cash equivalents at beginning of year</b>	78,404
<b>Cash and cash equivalents at end of year</b>	<u>\$ 170,278</u>
 <b>Reconciliation of operating loss to net cash used for operating activities:</b>	
Operating loss	\$ (1,145,999)
Adjustment to reconcile operating loss to net cash used for operations:	
Depreciation	41,505
Changes in assets and liabilities:	
Decrease in operating governmental receivables	8,970
Decrease in prepaid assets	663
Increase in operating accounts payable	36,684
Decrease in accrued liabilities	(8,575)
<b>Net cash used for operating activities</b>	<u>\$ (1,066,752)</u>
 <b>Non cash contributions</b>	
Capital Assets Obtained Through Capital Lease	\$ 23,762
Leasehold improvements	<u>62,341</u>

The notes to the basic financial statements are an integral part of this statement.

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**KIPP JOURNEY ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2010**

**1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY**

KIPP Journey Academy (the "Academy") is a legally separate nonprofit corporation served by an appointed nine-member board of Directors and meets the definition of a community school under chapter 3314 of the Ohio Revised Code. The Academy is a student-focused community where all students develop the intellectual, academic, and social skills needed to understand and take action on issues they encounter in everyday life. In a rigorous, safe, and personalized learning environment, a culture of responsibility and service is fostered, empowering and equipping all learners to become more active and engaged citizens. The Academy offers education for children in the fifth through sixth grade. The Academy may sue or be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy.

The Academy was approved for operation under a contract with Thomas B. Fordham Foundation (the "Sponsor") for a period of five academic years commencing after July 1, 2008 and ending June 30, 2013. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The Educational Service Center of Central Ohio ("ESCCO") serves as the fiscal agent for the Academy (see Note 10).

*Reporting Entity:*

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the Academy consists of all funds, departments, boards, and agencies that are not legally separate from the Academy. For the Academy, this includes instructional activities of the Academy.

Component units are legally separate organizations for which the Academy is financially accountable. The Academy is financially accountable for an organization if the Academy appoints a voting majority of the organization's governing board and (1) the Academy is able to significantly influence the programs or services performed or provided by the organization; or (2) the Academy is legally entitled to or can otherwise access the organization's resources; the Academy is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Academy is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Academy in that the Academy approves the budget and issuance of debt. The Academy has no component units.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements (BFS) of the Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989, provided those pronouncements do not conflict with or contradict GASB pronouncements. The Academy does not apply FASB Statements or Interpretation issued after November 30, 1989. The Academy's significant accounting policies are described below.

**KIPP JOURNEY ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2010  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**A. Basis of Presentation**

Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

**B. Measurement Focus and Basis of Accounting**

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. Statement of revenue, expenses and changes in net assets present increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. Basis of accounting refers to when revenue and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

**C. Budgetary Process**

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705, unless specifically provided in the Academy's contract with its Sponsor, except for Ohio Revised Code Section 5705.391 as it relates to five year forecasts and spending plans. The contract between the Academy and its Sponsor does not prescribe a budgetary process for the Academy.

**D. Cash and Cash Equivalents**

Cash received by the Academy is maintained in demand deposit accounts. The Academy had no investments during the fiscal year ended June 30, 2010.

**E. Capital Assets**

The Academy's capital assets during fiscal year 2010 consisted of building leasehold improvements and Furniture and Equipment. All capital assets are capitalized at cost and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of five thousand dollars. The Academy does not have any infrastructure. Building leasehold improvements are capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All capital assets are depreciated. Depreciation is computed using the straight-line method. Leasehold Improvements and Furniture and fixtures are being depreciated over ten years.



**KIPP JOURNEY ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2010  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**F. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**G. Intergovernmental Revenue**

The Academy currently participates in the State Foundation Program, Public Charter Schools Program Grant, Title I, Title II-A, IDEA B and EMIS. Revenues received from the State Foundation Program are recognized as operating revenues in the accompanying financial statements. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis. Federal and State grant revenue for fiscal year 2010 was \$786,004.

**H. Accrued Liabilities**

The Academy has recognized certain expenses due, but unpaid as of June 30, 2010. These expenses are reported as accrued liabilities in the accompanying financial statements.

**I. Prepayments**

Certain payments to vendors reflect the cost applicable to future accounting periods and are recorded as prepaid items in the statement of net assets. These items are reported as assets on the statements of net assets using the consumption method. A current asset for prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

**J. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the Academy. Operating expenses are necessary cost incurred to provide the service that is the primary activity of the Academy. All revenues and expenses not meeting this definition are reported as non-operating.

**KIPP JOURNEY ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2010  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**K. Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**L. Economic Dependency**

The Academy receives approximately 98% of its operating revenue from the Ohio Department of Education. Due to the significance of this revenue, the Academy is considered to be economically dependent on the State of Ohio Department of Education.

**3. ACCOUNTABILITY**

**Change in Accounting Principles**

For fiscal year 2010, the Academy has implemented Government Accounting Standards Board (GASB) Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", Statement No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", Statement No. 56, "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards", Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies".

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. It requires governments to measure derivative instruments, with the exception of synthetic guaranteed investment contracts that are fully benefit-responsive, at fair value in the economic resources measurement focus financial statements. The implementation of this statement did not result in any changes to the financial statements.

GASB Statement No. 55 incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB's authoritative literature. The GAAP hierarchy consists of the sources of accounting principles used in the preparation of financial statements and the framework for selecting those principles. The implementation of GASB Statement No. 55 did not have an effect on the financial statements of the Academy.

GASB Statement No. 56 incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature. This guidance addresses related party transactions, going concern considerations, and subsequent events from the AICPA literature. The implementation of this statement did not result in any changes to the financial statements.

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers). The requirements in this statement will allow more agent employers to use the alternative measurement method to produce actuarially based information for financial reporting and clarify that OPEB measures reported by agent multiple-employer OPEB plans and the participating employers should be determined at the same minimum frequency and as of a common date to improve the consistency of reporting with regard to funded status and funding progress information.

**KIPP JOURNEY ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2010  
(Continued)**

**3. ACCOUNTABILITY (Continued)**

**Change in Accounting Principles (Continued)**

The implementation of this statement did not result in any changes to the financial statements.

GASB Statement No. 58 provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of United States Bankruptcy Code. The requirements in this statement will provide more consistent recognition, measurement, display, and disclose guidance for governments that file for Chapter 9 bankruptcy. The implementation of this statement did not result in any changes to the financial statements.

**4. CASH DEPOSITS**

**Deposits with Financial Institutions**

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

At June 30, 2010, the carrying amount of all the deposits was \$170,278. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2010, \$21,176 of the Academy's bank balance of \$271,176, was exposed to custodial risk as discussed above, while \$250,000 was covered by the Federal Deposit Insurance Corporation.

**5. RECEIVABLES**

At June 30, 2010, the Academy had intergovernmental receivables in the amount of \$169,432. The receivables are expected to be collected within one year and are comprised as follows:

	Amount
<b>Intergovernmental receivables:</b>	
Foundation	\$ 3,425
IDEA B	4,180
IDEA B - ARRA	31
Title II-D	1,001
Title I	44,491
Title I - ARRA	30,216
Public Charter School Program	86,088
Total intergovernmental receivables	\$ 169,432

**KIPP JOURNEY ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2010  
(Continued)**

**6. CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	<u>Balance</u> <u>6/30/2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/2010</u>
Leasehold Improvements	\$ 298,343	\$ 62,341	\$ -	\$ 360,684
Furniture and equipment		75,393		75,393
Less: Accumulated Depreciation	<u>(29,834)</u>	<u>(41,505)</u>	<u>-</u>	<u>(71,339)</u>
Net Capital Assets	<u>\$ 268,509</u>	<u>\$ 96,229</u>	<u>\$ -</u>	<u>\$ 364,738</u>

**7. PURCHASED SERVICES**

For the fiscal year ended June 30, 2010, purchased services expenses were as follows:

	<u>Amount</u>
Staff Development	\$ 29,388
Field Trip	40,191
Student Services	18,537
Transportation Services	202,600
Legal Fees	5,200
Fiscal, Staff and Administrative Services	115,115
Printing and Postage	25,378
Marketing	3,000
Utilities	60,113
Professional Services	8,865
Food Services	86,554
Building Services	97,628
Community Outreach	<u>41,255</u>
Total	<u>\$ 733,824</u>

**KIPP JOURNEY ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2010  
(Continued)**

**8. BUILDING LEASE**

The Academy has entered into a lease for the period from July 1, 2008 through June 30, 2018 with Columbus City School District. The Academy has the option to renew the lease with Columbus City Schools for a renewal term of July 1, 2018 through June 30, 2028. Under the lease agreement, the Academy is responsible for paying all utilities, maintenance, and repairs, and applicable property taxes. Rent charges and other occupancy costs for the Academy totaled \$101,640 for the fiscal year.

There is a scheduled inflationary rent adjustment (lesser of 13.5 % or CPI factor) effective July 1, 2013.

The following is a schedule of the future minimum payments; excluding allowable facility costs passthroughs, required under the operating lease as of June 30, 2010.

Fiscal Year Ending June 30	Amount
2011	\$ 55,345
2012	55,345
2013	55,345
2014	62,817
2015	62,817
2016	62,817
2017	62,817
2018	62,817
Total minimum lease payments	\$ 480,120

**9. DEBT**

Line of credit

On December 17, 2009, the Academy signed a \$15,000 promissory note agreement with the KIPP Foundation to repay expenses incurred in fiscal 2009 by the Academy which was paid for by the KIPP Foundation. These expenses were accounted for and recorded as accounts payable in fiscal 2009. The line of credit balance at June 30, 2010 is \$7,500.

Capital lease

In 2010 the Academy entered into a copier lease agreement with an asset value of \$23,762. This lease meets the criteria of a capital lease as defined by Statement of the Financial Accounting Standards No. 13 "Accounting of Leases."

The principal and interest payments made on the leases during fiscal 2010 were \$2,145 and \$1,479, respectively.

**KIPP JOURNEY ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2010  
(Continued)**

**9. DEBT (Continued)**

The Academy's future minimum lease payments under capital lease obligations as of June 30, 2010 are as follows:

Year ending June 30,	Capital Lease
2011	\$ 6,213
2012	6,212
2013	6,213
2014	6,213
2015	2,588
Total minimum lease payments	27,439
Less: amounts representing interest	5,822
Present value of minimum lease payments	\$ 21,617

**10. SPONSOR**

The Academy was approved for operation under a contract with the Thomas B. Fordham Foundation (the Sponsor) through June 30, 2013. As part of this contract, the Sponsor is entitled to a maximum of 2% of state foundation. The Sponsor waived the sponsorship fee for fiscal year 2009 and fiscal year 2010.

**11. SERVICE AGREEMENT**

The Academy entered into a service contract with the Educational Service Center of Central Ohio (ESCCO), for fiscal year 2010, to provide fiscal, student data, and Comprehensive Continuous Planning (CCP) consulting services. The Academy paid ESCCO \$102,934 in service fees for fiscal year 2010.

**12. RISK MANAGEMENT**

The Academy is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to contracted personnel; and natural disasters. For fiscal year 2010, the Academy had general liability insurance through Ohio Casualty Insurance.

Settled claims have not exceeded commercial coverage in the past year. There was no significant reduction in coverage from the prior fiscal year.

The Academy pays the State Worker's Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

**KIPP JOURNEY ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2010  
(Continued)**

**13. PENSION PLANS**

**A. School Employees Retirement System**

Plan Description - The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer public employee retirement plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS Ohio website, [www.ohsers.org](http://www.ohsers.org), under *Forms and Publications*.

Funding Policy – For the fiscal year ended June 30, 2010, plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2010, 12.74 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Academy's contribution for pension obligations to SERS for the fiscal year ended June 30, 2010 and 2009 were \$15,357 and \$20,366 respectively.

**B. State Teachers Retirement System of Ohio**

Plan Description - The Academy contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**KIPP JOURNEY ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2010  
(Continued)**

**13. PENSION PLANS (Continued)**

**B. State Teachers Retirement System of Ohio (Continued)**

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For the fiscal year ended 2010, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contribution for pension obligations to STRS for the fiscal years ended June 30, 2010 and 2009 was \$39,856 and \$41,367 respectively.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2010, none of the Academy's staff have elected Social Security.

**14. POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

Plan Description - The Academy contributes to two cost-sharing, multiple employer defined benefit OPEB plans administered by the School Employees Retirement System (SERS) for classified retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For fiscal year 2010, .05 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2010, the actuarially determined amount was \$35,800.



**KIPP JOURNEY ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2010  
(Continued)**

**14. POSTEMPLOYMENT BENEFITS (Continued)**

**A. School Employees Retirement System (Continued)**

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The Academy's contribution for health care (including surcharge) for the fiscal year ended June 30, 2010, was \$1,855, which equaled the required contributions.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare Part B. For fiscal year 2010, this actuarially required allocation was .76 percent of covered payroll. The School District's contribution for Medicare Part B for the fiscal years ended June 30, 2010, 2009 was \$1,635 and \$1,090 respectively.

**B. State Teachers Retirement System of Ohio**

Plan Description – The Academy contributes to the cost sharing, multiple-employer defined benefit Health Care Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Health Care Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions. For fiscal year 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contribution for health care for the fiscal years ended June 30, 2010, and 2009 was \$4,766 and \$3,177 respectively.

**15. OTHER EMPLOYEE BENEFITS**

The Academy has contracted through an independent agent to provide employee medical and dental insurance to its full time employees. The Academy pays a portion of the monthly premiums for a selected coverage (medical and dental).

**16. CONTINGENCIES**

**A. Grants**

The Academy received financial assistance from state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2010.

**KIPP JOURNEY ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2010  
(Continued)**

**16. CONTINGENCIES (Continued)**

**B. Full Time Equivalency**

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. As a result of the review after fiscal year-end, the Ohio Department of Education owed the Academy \$3,425. This amount is reflected as an intergovernmental receivable on the basic financial statements.

**17. TAX EXEMPT STATUS**

The Academy is approved under Section 501(c)(3) of the Internal Revenue Code as a tax-exempt organization.

**KIPP JOURNEY ACADEMY  
FRANKLIN COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2010**

<b>Federal Grantor/ Pass Through Grantor Program Title</b>	<b>Grant Year</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>	<b>Expenditures</b>
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>				
<i>Passed Through Ohio Department of Education:</i>				
Cash Assistance:				
School Breakfast Program	2010	10.553	\$ 15,897	\$ 15,897
National School Lunch Program	2010	10.555	35,125	35,125
<i>Total Child Nutrition Cluster</i>			<u>51,022</u>	<u>51,022</u>
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>			<b><u>51,022</u></b>	<b><u>51,022</u></b>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>				
<i>Passed Through Ohio Department of Education:</i>				
Title I Grants to Local Educational Agencies				
Title I Grants to Local Educational Agencies	2009	84.010	7,241	-
Title I Grants to Local Educational Agencies	2010	84.010	84,845	119,180
Title I Grants to Local Educational Agencies-ARRA	2010	84.389	68,917	99,133
<i>Total Title I Grants to Local Educational Agencies</i>			<u>161,003</u>	<u>218,313</u>
Special Education Grants to States				
Special Education Grants to States	2010	84.027	1,099	960
Special Education-Grants to States-ARRA	2010	84.391	12,652	12,652
<i>Total Special Education Grants to States</i>			<u>13,751</u>	<u>13,612</u>
Safe and Drug Free Grant	2010	84.186	651	651
Public Charter School Grant	2010	84.282	337,949	365,557
Education Technology State Grants	2010	84.318	48	845
Improving Teacher Quality State Grants	2010	84.367	3,979	2,614
State Fiscal Stabilization Fund-ARRA	2010	84.394	52,809	52,809
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>			<b><u>570,190</u></b>	<b><u>654,401</u></b>
<b>TOTALS</b>			<b><u>\$ 621,212</u></b>	<b><u>\$ 705,423</u></b>

*The accompanying notes to this schedule are an integral part of this schedule.*

**KIPP JOURNEY ACADEMY  
FRANKLIN COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2010**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) summarizes activity of the Academy's federal award programs. The schedule has been prepared on the cash basis of accounting.

**NOTE B - CHILD NUTRITION CLUSTER**

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

**NOTE C – TRANSFERS**

The Center generally must spend Federal assistance within 15 months of receipt (funds must be obligated by June 30<sup>th</sup> and spent by September 30<sup>th</sup>). However, with approval from the Ohio Department of Education (ODE), the Academy can transfer unspent Federal assistance to the succeeding year, thus allowing the Academy a total of 27 months to spend the assistance. During fiscal year 2009, the ODE authorized the following transfers from fiscal year 2009 grants to fiscal year 2010 grants:

<b>CFDA</b>		
<b><u>Number</u></b>	<b><u>Program Title</u></b>	<b><u>Amount</u></b>
84.010	Title I Grants to Local Education Agencies	\$ 36,873
84.318	Education Technology State Grants	\$ 516



# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

KIPP Journey Academy  
Franklin County  
1406 Myrtle Avenue  
Columbus, Ohio 43211

To the Board of Directors:

We have audited the basic financial statements of the KIPP Journey Academy, Franklin County, Ohio (the Academy) as of and for the year ended June 30, 2010, and have issued our report thereon dated June 3, 2011. 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 the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Academy'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, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Academy's financial statements will not be prevented, or detected and timely corrected.

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 material weaknesses, as defined above.

### Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We also noted certain matters not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated June 3, 2011.

We intend this report solely for the information and use of management, the Board of Directors, the Thomas B. Fordham Foundation, federal awarding agencies, and others within the Academy. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

**Dave Yost**  
Auditor of State

June 3, 2011



# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

KIPP Journey Academy  
Franklin County  
1406 Myrtle Avenue  
Columbus, Ohio 43211

To the Board of Directors:

### Compliance

We have audited the compliance of the KIPP Journey Academy, Franklin County, Ohio (the Academy) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to its major federal program for the year ended June 30, 2010. The summary of auditor's results section of the accompanying schedule of findings and questioned costs identifies the Academy's major federal program. The Academy's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to the major federal program. Our responsibility is to express an opinion on the Academy's 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 included in the Comptroller General of the United States' *Government Auditing Standards*; 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 reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Academy's compliance with those requirements.

In our opinion, the KIPP Journey Academy, Franklin County, Ohio complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2010. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that, while not affecting our opinion on compliance, OMB Circular A-133 requires us to report. The accompanying schedule of findings and questioned costs lists this instance as Finding 2010-001.

### Internal Control over Compliance

The Academy's management 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 the Academy's internal control over compliance with requirements that could directly and materially affect a major federal program, in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Academy's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

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 over compliance that might be deficiencies, 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.

The Academy's response to the finding we identified is described in the accompanying schedule of findings and questioned costs. We did not audit the Academy's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of management, the Board of Directors, the Thomas B. Fordham Foundation, others within the Academy, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



**Dave Yost**  
Auditor of State

June 3, 2011



**KIPP JOURNEY ACADEMY  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2010**

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	Public Charter Schools Program (CFDA #84.282)
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

None

**KIPP JOURNEY ACADEMY  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2010  
(Continued)**

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
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**Allowable Activities/Allowable Costs – Title I**

<b>Finding Number</b>	2010-001
<b>CFDA Title and Number</b>	Title I Grants to Local Educational Agencies-CFDA # 84.010
<b>Federal Award Number / Year</b>	C1S1-2010
<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

Material Noncompliance/Questioned Costs

Title I, Section 1115 of the Elementary and Secondary Education Act (ESEA) (20 U.S.C Section 6315) provides that Title I, Part A, funds are to be used to provide services and benefits to eligible children residing or enrolled in eligible school attendance areas.

2 C.F.R. Part 225, Appendix A, Section C(3)(a) states that a cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

Although Title I was not audited as a major federal program, we noted \$45,976 of expenditures for items such as computers, 5<sup>th</sup> grade science kits, reading books, and West African drum and dance classes. These purchases benefitted all students, not just those eligible for the Title I program. It is undeterminable what percentage of these expenditures benefitted those students who were not eligible to receive Title I services; therefore a questioned cost is issued in the amount expended for those items, \$45,976.

In addition, 2 C.F.R. Part 225, Appendix B (8)(h) states that the following standards regarding time distribution are in addition to the standards for payroll documentation:

1. Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.
2. No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.
3. Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

**KIPP JOURNEY ACADEMY  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2010  
(Continued)**

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)</b>
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Material Noncompliance/Questioned Costs (Continued)

4. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) (not included in this finding) unless a statistical sampling system or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:
  - a. More than one Federal award,
  - b. A Federal award and a non-federal award,
  - c. An indirect cost activity and a direct cost activity,
  - d. Two or more indirect activities which are allocated using different allocation bases, or
  - e. An unallowable activity and a direct or indirect cost activity.

The Academy arbitrarily allocated 20% of teachers' salaries and benefits to Title I totaling \$148,533 in fiscal year 2010. The Academy could not demonstrate that 20% of all teachers' time benefitted Title I eligible students; therefore a questioned cost is issued in the amount of Title I funding expended for teachers' salaries and benefits of \$148,533.

Therefore, total questioned costs for expenditures charged to the Title I program lacking documentation to demonstrate what percentage of these expenditures benefitted those students eligible to receive Title I services is \$194,509.

We recommend that the District adopt internal controls over the compliance requirements noted above to ensure the allowability of expenditures charged to Federal programs.

**Officials' Response and Corrective Action Plan:**

When the initial Budget for fiscal 2010 was established it was based on the assumption that the Academy would be a School-wide Title I eligible entity, which would have eliminated the need to track the % of time teachers that were allocated to Title I programs. In a school-wide program, Federal funds lose their specific program identity and may be used for any eligible costs of the school-wide program. Subsequent to fiscal 2010, the Academy became school-wide Title I eligible entity.

Anticipated Completion Date: July 1, 2010  
Responsible Contact: Alan Hutchinson, Treasurer

**KIPP JOURNEY ACADEMY  
FRANKLIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 § .315 (b)  
JUNE 30, 2010**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2009-001	GAAP Financial Statement Preparation and Reporting	Partially Corrected	Comment issued in management letter



# Dave Yost • Auditor of State

**KIPP JOURNEY ACADEMY**

**FRANKLIN COUNTY**

## **CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JUNE 21, 2011**