



**KIPP JOURNEY ACADEMY
FRANKLIN COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2009



Mary Taylor, CPA
Auditor of State

**KIPP JOURNEY ACADEMY
FRANKLIN COUNTY**

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Mary Taylor, CPA

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, 2009, 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 that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the KIPP Journey Academy, Franklin County, Ohio as of June 30, 2009, 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 30, 2010, 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.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

June 30, 2010

**KIPP JOURNEY ACADEMY
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
UNAUDITED**

The management's discussion and analysis of KIPP Journey Academy's (the "Academy"), financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2009. 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 Academy's financial performance. The first year of the Academy's operation was fiscal year 2009. The Academy began accepting students and community school foundation revenue in July of 2008. However, the Academy did receive donations and grants before July 1, 2008.

Financial Highlights

- Net Assets increased \$294,137.
- Operating revenues accounted for \$411,589 in revenue or 25.1% of all revenues.
- Non-operating revenues accounted for \$1,227,424 in revenue or 74.9% 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 2009?" 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 10-19 of this report.

**KIPP JOURNEY ACADEMY
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
UNAUDITED**

The table below provides a summary of the Academy's net assets at June 30, 2009.

	<u>Net Assets</u>
	<u>2009</u>
Current assets	\$ 102,526
Capital assets, net	268,509
Total assets	<u>371,035</u>
Current liabilities	<u>65,762</u>
Total liabilities	<u>65,762</u>
Net assets	
Invested in capital assets	268,509
Unrestricted	36,764
Total net assets	<u>\$ 305,273</u>

Results as of June 30, 2009 indicate an ending net asset balance of \$305,273, an increase of \$294,137. Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2009, the Academy's assets exceeded liabilities by \$305,273.

At year-end, capital assets represented 72.37% of total assets. Capital assets consisted of leasehold improvements. There is no debt related to these capital assets. As these assets were funded entirely with in-kind contributions. 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, 2009
UNAUDITED**

The table below shows the changes in net assets for the fiscal year 2009.

	Change in Net Assets
	2009
Operating Revenues:	
Foundation	\$ 404,515
Fees	7,074
Total revenues	411,589
Expenses:	
Personal services	623,131
Purchased Services	610,745
Supplies and Materials	81,166
Depreciation	29,834
Total expenses	1,344,876
Operating Loss	(933,287)
Non Operating Revenues	
Donations	1,159,894
Federal & State Grants	67,525
Interest income	5
	1,227,424
Change in Net Assets	294,137
Net Assets Beginning of Year	11,136
Net Assets End of Year	\$ 305,273

Fiscal year 2009 was the Academy's first year of operations, providing services to fifth grade students. In fiscal year 2010 the Academy added the sixth grade. The FTE for 2009 was 64 students while the FTE for fiscal 2010 is 131 students. The Academy was organized in fiscal year 2007 and operated in fiscal year 2007 and fiscal year 2008 through grants and donations in the amount of \$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.

**KIPP JOURNEY ACADEMY
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
UNAUDITED**

Capital Assets

At June 30, 2009, KIPP had donated leasehold improvements in the amount of \$298,343. These improvements are being depreciated over the life of the lease of the building that the Academy is leasing under a 10 year operating lease from the Columbus Public Schools. Depreciation expense for fiscal year 2009 was \$29,834. See Note 6 in the notes to the basic financial statements for more detail on capital assets.

Economic Factors

The Academy receives approximately 98% 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.

Current Financial Related Activities

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 services 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 lease or acquire facilities as needed and contract for any services necessary for operation of the Academy.

The Academy contracted with Charter School Specialists, Inc for fiscal services for fiscal year 2009. On July 7, 2010, the Academy entered into a contract with the Educational Service Center of Central Ohio for consultation and financial and fiscal services.

Contacting the Academy's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors, with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional financial information contact Alan R. Hutchinson, Treasurer of the Educational Service Center of Central Ohio, 2080 Citygate Drive, Columbus, Ohio 43219.

**KIPP JOURNEY ACADEMY
FRANKLIN COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2009**

Assets:

Current Assets:

Cash and cash equivalents	\$ 78,404
Intergovernmental receivable	19,637
Prepayments	4,485
Total current assets	<u>102,526</u>

Non-Current Assets:

Depreciable capital assets, net of accumulated depreciation	<u>268,509</u>
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Total assets	<u>371,035</u>
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Liabilities:

Accounts payable	37,710
Accrued wages	23,333
Due to other governments	4,719
	<u>65,762</u>

Total liabilities	<u>65,762</u>
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Net Assets:

Invested in capital assets	268,509
Unrestricted	36,764
	<u>305,273</u>

Total net assets	<u>\$ 305,273</u>
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KIPP JOURNEY ACADEMY
FRANKLIN COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Operating revenues:

State foundation	\$ 404,515
Charges for services	7,074
Total operating revenues	<u>411,589</u>

Operating expenses:

Personal services	623,131
Purchased services	610,745
Materials and supplies	81,166
Depreciation	29,834
Total expenses	<u>1,344,876</u>

Operating loss	<u>(933,287)</u>
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Non-operating revenues:

Donations and capital contributions	1,159,894
Federal and state grants	67,525
Interest income	5
Total non-operating revenues	<u>1,227,424</u>

Change in net assets	294,137
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Net assets at beginning of year	<u>11,136</u>
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Net assets at end of year	<u>\$ 305,273</u>
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KIPP JOURNEY ACADEMY
FRANKLIN COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Cash flows from operating activities:	
Cash received from foundation	\$ 392,119
Cash received from charges for services	7,074
Cash payments for personal services	(596,554)
Cash payments for purchased services	(591,604)
Cash payments for materials and supplies	<u>(78,328)</u>
 Net cash used by operating activities	 <u>(867,293)</u>
Cash flows from noncapital financing activities:	
Donations	861,551
Federal & state grants	<u>60,284</u>
 Net cash provided by noncapital financing activities	 <u>921,835</u>
Cash flows from investing activities:	
Interest received	<u>5</u>
 Net cash provided by investing activities	 <u>5</u>
 Net increase in cash and cash equivalents	 54,547
 Cash and cash equivalents at beginning of year	 <u>23,857</u>
 Cash and cash equivalents at end of year	 <u><u>\$ 78,404</u></u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (933,287)
Adjustments:	
Depreciation	29,834
Changes in assets and liabilities:	
Increase in intergovernmental receivable	(12,396)
Decrease in prepayments	4,612
Increase in operating accounts payable	17,367
Increase in accrued liabilities	<u>26,577</u>
 Net cash used by operating activities	 <u><u>\$ (867,293)</u></u>
 Non cash contributions	
Leasehold improvements	<u><u>\$ 298,343</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**KIPP JOURNEY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

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. Charter School Specialists, LLC ("CSS") 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, 2009
(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, 2009.

E. Capital Assets

The Academy's capital assets during fiscal year 2009 consisted of building leasehold improvements. 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 are depreciated over ten years.

**KIPP JOURNEY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2009
(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.

At July 1, 2008 the Academy had received donations and grants in the amount of \$264,805 and incurred start up costs for the purchase of classroom materials, board development, and other equipment in the amount of \$253,669. As a result the Academy had beginning of the period net asset balance of \$11,136.

G. Intergovernmental Revenue

The Academy currently participates in the State Foundation Program, School net professional development grant, Title I, and Title II-A. 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 2009 was \$67,525.

H. Accrued Liabilities

The Academy has recognized certain expenses due, but unpaid as of June 30, 2009. 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, 2009
(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 2009, the Academy has implemented GASB Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations", GASB Statement No. 52, "Land and Other Real Estate Held as Investments by Endowments", GASB Statement No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", and GASB Statement No. 56 "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards".

GASB Statement No. 49 addresses accounting and financial reporting standards for pollution remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The implementation of GASB Statement No. 49 did not have an effect on the financial statements of the Academy.

GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The implementation of GASB Statement No. 52 did not have an effect on the financial statements of the Academy.

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 implementation of GASB Statement No. 55 did not have an effect on the financial statements of the Academy.

GASB Statement No. 56 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' (AICPA) Statements on Auditing Standards. The implementation of GASB Statement No. 56 did not have an effect on the financial statements of the Academy.

**KIPP JOURNEY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)**

4. CASH DEPOSITS

Deposits with Financial Institutions

At June 30, 2009, the carrying amount of all the deposits was \$78,404. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2009, all of the Academy's bank balance of \$81,161 was covered by the Federal Deposit Insurance Corporation.

5. RECEIVABLES

At June 30, 2009, the Academy had intergovernmental receivables in the amount of \$19,637. The receivables are expected to be collected within one year and are comprised as follows:

	Amount
Intergovernmental receivables:	
State Foundation	\$ 12,396
Title I	7,241
Total intergovernmental receivables	\$ 19,637

6. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

	Balance 6/30/2008	Additions	Reductions	Balance 6/30/2009
Leasehold Improvements	\$ -	\$ 298,343	\$ -	\$ 298,343
Less: Accumulated Depreciation	-	(29,834)	-	(29,834)
Net Capital Assets	\$ -	\$ 268,509	\$ -	\$ 268,509

**KIPP JOURNEY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)**

7. PURCHASED SERVICES

For the fiscal year ended June 30, 2009, purchased services expenses were as follows:

	Amount
Staff Development	\$ 56,316
Field Trip	3,638
Student Services	75,115
Transportation Services	106,296
Legal Fees	11,121
Staff and Administrative Services	78,847
Fiscal Services	14,856
Postage	3,057
Marketing	12,795
Utilities	55,913
Professional Services	30,895
Food Services	60,629
Building Services	99,777
Community Outreach	1,490
	Total
	\$ 610,745

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 \$99,777 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, 2009.

Fiscal Year Ending June 30	Amount
2010	\$ 55,345
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	\$ 535,465

**KIPP JOURNEY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)**

9. 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.

10. SERVICE AGREEMENT

The Academy entered into a service contract with Charter School Specialists, LLC (CSS), for fiscal year 2009, to provide fiscal, student data, and Comprehensive Continuous Planning (CCP) consulting services. The Academy paid CSS \$54,745 in service fees for fiscal year 2009.

11. 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 2009, 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.

12. PENSION PLANS

A. School Employees Retirement System

Plan Description - The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension 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 includes financial statements and required supplementary information. That report 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, under *Forms and Publications*.

Funding Policy - 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 2009, 9.09 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, 2009 was \$20,366, which equaled the required contribution.

**KIPP JOURNEY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)**

12. PENSION PLANS (Continued)

B. State Teachers Retirement System of Ohio

Plan Description - The Academy participates in 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.

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.

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 fiscal year 2009, 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 contribution for pension obligations to SERS for the fiscal year ended June 30, 2009 was \$41,367, which equaled the required contribution.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2009, none of the Academy staff have elected Social Security.

**KIPP JOURNEY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)**

13. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The Academy participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated 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 System 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 105(e). For 2009, 4.16 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 2009, the actuarially determined amount was \$35,800.

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, 2009, was \$1,454, which equaled the required contributions.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2009, this actuarially required allocation was 0.75 percent of covered payroll. The Academy's contribution for Medicare Part B for the fiscal years ended June 30, 2009 was \$1,090, which equaled the required contributions.

B. State Teachers Retirement System of Ohio

Plan Description - The Academy contributes to the cost sharing, multiple employer defined benefit Health Plan (the "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 or by calling (888) 227-7877.

**KIPP JOURNEY ACADEMY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)**

13. POSTEMPLOYMENT BENEFITS (Continued)

B. State Teachers Retirement System of Ohio (Continued)

Funding Policy - Ohio law authorizes STRS Ohio to offer the 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 Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2009, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Academy's contribution for health care for the fiscal years ended June 30, 2009 was \$3,177, which equaled the required contribution.

14. 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).

15. 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, 2009.

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 \$12,396. This amount is reflected as an intergovernmental receivable on the basic financial statements.

16. TAX EXEMPT STATUS

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

17. SUBSEQUENT EVENTS

On July 13, 2009, the Academy entered into a contract with the Educational Service Center of Central Ohio to perform consultation, financial and fiscal agent services.

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.



Mary Taylor, CPA

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, 2009, and have issued our report thereon dated June 30, 2010. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2009-001 described in the accompanying schedule of findings to be a material weakness.

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 an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2009-001.

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 30, 2010.

The Academy's response to the finding identified in our audit is described in the accompanying schedule of findings. 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, and the Thomas B. Fordham Foundation, and others within the Academy. We intend it for no one other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

June 30, 2010

**KIPP JOURNEY ACADEMY
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2009**

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

FINDING NUMBER 2009-001

**GAAP Financial Statement Preparation and Reporting
—Material Non-Compliance/Material Weakness**

Ohio Admin. Code 117-2-03(B) requires community schools to prepare annual financial statements using generally accepted accounting principles (GAAP). Ohio Rev. Code 117.38 requires the Academy to submit its financial statements to the Auditor of State within 150 days of the Academy's year-end.

GAAP-basis financial statements enhance the decision making capabilities of management and those charged with governance of the Academy, as well as others with regulatory interests in the Academy's results of operations and available resources, such as the Ohio Department of Education and the Academy's sponsor.

The Academy's financial statements were not completed until May 2010, and were not filed with the Auditor of State.

Additionally, there were audit adjustments required for corrections to beginning net assets, accrued revenues and expenditures, and capital assets and related depreciation expense; there were also various corrections to the notes to the financial statements.

At least partially contributing to the delay in the preparation of financial statements was the fact that the Academy was funded through various private foundations, and management had difficulty obtaining information to ensure accurate transactions in the financial statements, such as in-kind contributions and capital asset activity.

GAAP-basis financial information becomes less valuable with the passage of time, primarily because accrued revenues and expenses become realized. Those relying upon the Academy's financial statements may draw different conclusions if GAAP basis financial statements are not completed in a timely and accurate fashion.

Management must ensure there are internal controls and adequate communication with its donors to facilitate the timely and accurate preparation of the Academy's financial statements to allow the Academy to comply with Ohio Admin. Code 117-2-03(B) and the filing requirements of Ohio Rev. Code 117.38. We recommend that management and the Board of Directors coordinate efforts to obtain documentation needed to allow those responsible for the GAAP conversion process and preparation of the financial statements to have the supporting documentation to timely facilitate these processes. We also recommend that the Academy timely file a copy of its annual financial statements with the Auditor of State within the 150 day limitation.

Officials' Response:

This was the first year the Academy prepared GAAP basis financial statements, and as noted above, the final GAAP basis financial statements were not completed until May 2010. Information regarding beginning balance back to the initial year of operations as well as information related to in-kind contributions and other items had to be tracked down from various different sources, making it somewhat difficult to complete the GAAP basis financial statements. Additionally, the Academy like most government type entities throughout Ohio maintains it "books" on a "cash plus encumbrance" basis of accounting, not a GAAP basis of accounting. GAAP basis statements are prepared on an annual basis, as such these statements are not used on daily or monthly basis to manage the Academy's operations. As provided in the minutes of the Board meetings, each Treasurer from July 2008 through the date of this letter provided the Board with the necessary financial information needed to operate the Academy.

**KIPP JOURNEY ACADEMY
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2009
(Continued)**

<p>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</p>

FINDING NUMBER 2009-001 (Continued)

Officials' Response (Continued)

With this being stated, Management has taken steps to complete the GAAP basis financial statements in accordance with the Ohio Administrative Code.



Mary Taylor, CPA

Auditor of State

Independent Accountant's Report on Applying Agreed-Upon Procedures

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

To the Board of Directors:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The Auditor of State shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether KIPP Journey Academy (the Academy) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board adopted an anti-harassment policy at its meeting on September 22, 2008.
2. We read the policy, noting it included the following requirements from Ohio Rev. Code Section 3313.666(B):
 - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
 - (2) A definition of harassment, intimidation, or bullying that shall include the definition in division (A) of Ohio Rev. Code Section 3313.666;
 - (3) A procedure for reporting prohibiting incidents;
 - (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;

- (5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by Section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;
- (6) A procedure for documenting any prohibited incident that is reported;
- (7) A procedure for responding to and investigating any reported incident;
- (8) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
- (9) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;
- (10) A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended;

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and is not intended to be and should not be used by anyone other than these specified parties.



Mary Taylor, CPA
Auditor of State

June 30, 2010



Mary Taylor, CPA
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
AUGUST 5, 2010**