

KIPP INFINITY CHARTER SCHOOL
FINANCIAL STATEMENTS
JUNE 30, 2006

KIPP INFINITY CHARTER SCHOOL

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GOLDSTEIN GOLUB KESSLER LLP

Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
KIPP Infinity Charter School

We have audited the accompanying statement of financial position of KIPP Infinity Charter School (the "School") as of June 30, 2006, and the related statements of activities, functional expenses, and cash flows for the period from March 15, 2005 (date of inception) to June 30, 2006. These financial statements are the responsibility of the School'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 *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2006, and the changes in its net assets and its cash flows for the period from March 15, 2005 (date of inception) to June 30, 2006 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 September 16, 2006, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Goldstein Golub Kessler LLP

GOLDSTEIN GOLUB KESSLER LLP

September 16, 2006

KIPP INFINITY CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

June 30, 2006

ASSETS

Cash	\$538,863
Grants and Contracts Receivable	130,053
Property and Equipment, net	170,493
Prepaid Expenses and Other Assets	6,396
Total Assets	\$845,805

LIABILITIES AND NET ASSETS

Liabilities:

Accounts payable and accrued expenses	\$100,678
Due to related parties	8,130
Refundable advances from state and local government grants	35,000
Capital lease obligation	34,287
Total liabilities	178,095

Contingency

Net Assets:

Unrestricted	447,730
Temporarily restricted	219,980
Total net assets	667,710
Total Liabilities and Net Assets	\$845,805

See Notes to Financial Statements

KIPP INFINITY CHARTER SCHOOL

STATEMENT OF ACTIVITIES

Period from March 15, 2005 (date of inception) to June 30, 2006

	Unrestricted	Temporarily Restricted	Total
Operating revenue:			
State and local per pupil operating revenue	\$ 732,887		\$ 732,887
Government grants and contracts	316,357		316,357
Total operating revenue	1,049,244		1,049,244
Operating expenses:			
Program services:			
School operations	741,764		741,764
School start-up	24,754		24,754
Total program services	766,518		766,518
Supporting services:			
Management and general	51,604		51,604
Fund-raising	24,282		24,282
Total supporting services	75,886		75,886
Total operating expenses	842,404		842,404
School operating surplus	206,840		206,840
Other revenue:			
Contributions and other grants	215,050	\$219,980	435,030
Interest and other income - net	6,162		6,162
Donated services	19,678		19,678
Change in net assets and net assets at end of period	\$ 447,730	\$219,980	\$ 667,710

See Notes to Financial Statements

KIPP INFINITY CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES

Period from March 15, 2005 (date of inception) to June 30, 2006

	Program Services			Supporting Services			Total Expenses
	School Operations	School Start-up	Program Services	Management and General	Fund-raising	Total Supporting Services	
Salaries	\$401,224		\$401,224	\$27,686	\$19,564	\$47,250	\$ 448,474
Payroll taxes and employee benefits	56,909		56,909	5,537	3,913	9,450	66,359
Equipment	27,512	\$ 7,752	35,264	872		872	36,136
Professional fees	4,374		4,374	16,677		16,677	21,051
Contracted services - other	57,916		57,916	254	36	290	58,206
Supplies and materials	48,806	1,714	50,520	327	619	946	51,466
Telephone	6,080	111	6,191	32	46	78	6,269
Insurance	7,580		7,580				7,580
Food	3,576		3,576		10	10	3,586
Field lessons	30,030		30,030				30,030
Staff development	14,651	15,177	29,828	208	55	263	30,091
Fees	9,938		9,938	11	39	50	9,988
Academic program	51,945		51,945				51,945
Depreciation and amortization	21,223		21,223				21,223
	741,764	\$24,754	\$766,518	\$51,604	\$24,282	\$75,886	\$ 842,404
Management and general	51,604						
Fund-raising	24,282						
Subtotal	\$817,650						
Total number of students	79						
Average cost per student	\$ 10,350						

See Notes to Financial Statements

KIPP INFINITY CHARTER SCHOOL

STATEMENT OF CASH FLOWS

Period from March 15, 2005 (date of inception) to June 30, 2006

Cash flows from operating activities:	
Change in net assets	\$ 667,710
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	21,223
Changes in operating assets and liabilities:	
Increase in grants and contracts receivable	(130,053)
Increase in prepaid expenses and other assets	(6,396)
Increase in accounts payable and accrued expenses	100,678
Increase in refundable advances from state and local government grants	35,000
Increase in due to related parties	8,130
Net cash provided by operating activities	696,292
Cash used in investing activity - purchases of property and equipment	(147,301)
Cash used in investing activity - payments made on capital lease obligation, net of proceeds	(10,128)
Net increase in cash at end of period	\$ 538,863

Supplemental disclosure of cash flow information:

Cash paid during the period for interest	\$ 2,389
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Supplemental schedule of noncash investing and financing activity:

Purchase of equipment financed by capital lease	\$ 44,415
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See Notes to Financial Statements

KIPP INFINITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS June 30, 2006

1. PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

KIPP Infinity Charter School (the "School") is an education corporation that operates as a charter school in the borough of Manhattan (Harlem), New York City. On March 15, 2005, the Board of Regents of the University of the State of New York granted the school a provisional charter valid for a term of five years and renewable upon expiration.

During the period from March 15, 2005 to June 30, 2005 although the School's operations were dormant it generated revenue and expense activities. Additionally during the period from July 1, 2005 to June 30, 2006, the School incurred other start-up related costs pertaining to the School's first year of active operations.

The School's mission is to provide all of its students with the knowledge, skills and character traits necessary to prepare them for success in the nation's finest high schools and colleges, and to contribute to the social improvement of their own community and society at large.

In fiscal year 2006, the School operated classes for students in the 5th grade.

The New York City Department of Food Services provides free and reduced-price lunches and the New York City Department of Transportation provides transportation vouchers directly to a majority of the School's students. Amounts with respect to these items are not included in these financial statements.

The financial statements of the School have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

The financial statements of the School reflect contributions received from the public and other organizations.

The School reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Unrestricted net assets are not restricted by donors or the donor-imposed restrictions have expired.

Temporarily restricted net assets contain donor-imposed restrictions that permit the organization to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by action of the organization.

Permanently restricted net assets contain donor-imposed restrictions that stipulate the resources be maintained permanently, but permit the organization to use, or expend, part or all of the income derived from the donated assets for either specified or unspecified purposes.

Revenue from the state and local government resulting from the School's charter status and based on the number of students enrolled is recorded when services are

KIPP INFINITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS June 30, 2006

are performed in accordance with the charter agreement. Federal and state funds are recorded by the School when expenditures are incurred and billable.

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

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

The School maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The School has not experienced any losses in such accounts.

Property and equipment is recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. Property and equipment acquired with certain government contract funds are recorded as expenses pursuant to the terms of the contract.

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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates by management. Actual results could differ from those estimates and the differences could be significant.

2. RELATED PARTY TRANSACTIONS:

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

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

The School has entered into a trademark license agreement with KIPP Foundation subject to a license fee of 1% of per pupil operating revenue not to exceed \$30,000. For the period from March 15, 2005 (date of inception) to June 30, 2006, the School incurred license fees amounting to \$7,176.

The back-office functions are centralized and handled by KIPP NYC's shared services team, whose salaries are paid by KIPP Academy Charter Schools. Amounts due to related parties represent short-term timing differences of pending settlements.

KIPP INFINITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS June 30, 2006

- 3. PROPERTY AND EQUIPMENT, NET:** Property and equipment, net, at cost, consists of the following:

	2005	Estimated Useful Life
Furniture and fixtures	\$ 27,347	5 years
Equipment and other	164,369	3 to 5 years
Less accumulated depreciation and amortization	191,716 (21,223)	
	\$170,493	

Equipment and other includes a copier acquired under a capital lease. As of June 30, 2006, the leased copier was reflected at a cost of \$44,415 and related accumulated amortization amounted to \$5,552.

- 4. TAX STATUS:** The School is waiting for final approval of its tax-exempt status from the Internal Revenue Service.

- 5. AGREEMENT FOR SCHOOL FACILITY:** The School is negotiating with the New York City Department of Education for dedicated and shared space at PS 195, a New York City public school located 625 West 133rd Street, New York City, New York. The facility is provided to the School at no cost. The School will be responsible for any overtime-related costs for services provided beyond the regular opening hours.

- 6. OPERATING EXPENSES:** Operating expenses are presented in the statement of functional expenses classified according to the significant program activity related to the purpose for which the School exists or supporting service.

The significant activities are:

School operations

Represents work (time and materials) that is specifically related to or necessary for the programming aspects of the School. If the activities and related costs directly affect the students or parents then it falls under this program.

Management and general

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

KIPP INFINITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS June 30, 2006

Fund-raising

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

7. CAPITAL LEASE OBLIGATION:

The School leases a copier under a capital lease expiring in June 2009. The lease requires monthly payments of principal and interest amounting to \$1,043 at a imputed interest rate of 6% per annum. Future minimum lease payments under the lease are as follows:

Year ending June 30,

2007	\$12,517
2008	12,517
2009	12,517
	<hr/>
	37,551
Less amount representing interest	(3,264)
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	\$34,287

8. CONTINGENCY:

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

9. TEMPORARILY RESTRICTED NETASSETS:

Temporarily restricted net assets are available for the following purpose or period:

Time restricted for future period	\$219,980
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GOLDSTEIN GOLUB KESSLER LLP

Certified Public Accountants and Consultants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Trustees
KIPP Infinity Charter School

We have audited the financial statements of KIPP Infinity Charter School (the "School") as of June 30, 2006 and for the period from March 15, 2005 (date of inception) to June 30, 2006, and have issued our report thereon dated September 16, 2006. 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 *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting - In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

We noted other matters involving the internal control over financial reporting which we have reported to management in a separate letter dated September 16, 2006.

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

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

Goldstein Golub Kessler LLP

GOLDSTEIN GOLUB KESSLER LLP

September 16, 2006