

**KIPP ACADEMY CHARTER SCHOOL**  
**FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

# KIPP ACADEMY CHARTER SCHOOL

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**June 30, 2006**

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# GOLDSTEIN GOLUB KESSLER LLP

Certified Public Accountants and Consultants

## INDEPENDENT AUDITOR'S REPORT

The Board of Trustees  
KIPP Academy Charter School

We have audited the accompanying statements of financial position of KIPP Academy Charter School (the "School") as of June 30, 2006 and 2005, and the related statements of activities, functional expenses, and cash flows for the years then ended. 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 audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KIPP Academy Charter School as of June 30, 2006 and 2005, and the changes in its net assets and its cash flows for the years 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 September 27, 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 on 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 audits.

*Goldstein Golub Kessler LLP*

**GOLDSTEIN GOLUB KESSLER LLP**

September 27, 2006

# KIPP ACADEMY CHARTER SCHOOL

## STATEMENT OF FINANCIAL POSITION

June 30,	2006	2005
<b>ASSETS</b>		
Cash and Cash Equivalents	\$2,828,350	\$3,565,517
Grants and Contracts Receivable	577,966	215,587
Property and Equipment, net	730,622	325,640
Prepaid Expenses and Other Assets	69,611	43,613
Due from Related Parties	317,053	
<b>Total Assets</b>	<b>\$4,523,602</b>	<b>\$4,150,357</b>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 365,603	\$ 217,650
Capital lease obligation	59,244	32,522
Due to related parties		84,040
<b>Total liabilities</b>	<b>424,847</b>	<b>334,212</b>
Commitments and Contingency		
Net Assets:		
Unrestricted	3,662,125	3,539,282
Temporarily restricted	236,630	76,863
Permanently restricted	200,000	200,000
<b>Total net assets</b>	<b>4,098,755</b>	<b>3,816,145</b>
<b>Total Liabilities and Net Assets</b>	<b>\$4,523,602</b>	<b>\$4,150,357</b>

See Notes to Financial Statements

**KIPP ACADEMY CHARTER SCHOOL**

**STATEMENT OF ACTIVITIES**

Year ended June 30,	2006				2005			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenue:								
State and local per pupil operating revenue	\$ 2,240,831			\$ 2,240,831	\$2,094,910			\$2,094,910
Government grants	254,309			254,309	333,663			333,663
<b>Total operating revenue</b>	<b>2,495,140</b>			<b>2,495,140</b>	<b>2,428,573</b>			<b>2,428,573</b>
Operating expenses:								
Program services:								
School operations	2,621,110			2,621,110	2,181,444			2,181,444
KIPP to College	867,432			867,432	607,558			607,558
KIPP Opportunity Fund	117,186			117,186	130,691			130,691
NYC Expansion Program	319,153			319,153	122,185			122,185
Orchestra special programs	167,786			167,786	115,202			115,202
<b>Total program services</b>	<b>4,092,667</b>			<b>4,092,667</b>	<b>3,157,080</b>			<b>3,157,080</b>
Supporting services - management and general	358,457			358,457	197,980			197,980
<b>Total operating expenses</b>	<b>4,451,124</b>			<b>4,451,124</b>	<b>3,355,060</b>			<b>3,355,060</b>
School operating deficit	(1,955,984)			(1,955,984)	(926,487)			(926,487)
Other revenue and expenses:								
Contributions and grants - cash	374,232	\$ 1,843,643		2,217,875	1,256,922	\$ 225,000		1,481,922
Contributions and grants - noncash					249,103			249,103
Fund-raising expense	(175,932)			(175,932)	(346,264)			(346,264)
Interest and other income	104,995			104,995	11,005			11,005
Donated services	91,656			91,656	31,000			31,000
Realized loss on sale of marketable securities					(15,248)			(15,248)
Net assets released from restrictions	1,683,876	(1,683,876)			319,962	(319,962)		
<b>Change in net assets</b>	<b>122,843</b>	<b>159,767</b>		<b>282,610</b>	<b>579,993</b>	<b>(94,962)</b>		<b>485,031</b>
Net assets at beginning of year	3,539,282	76,863	\$200,000	3,816,145	2,959,289	171,825	\$200,000	3,331,114
<b>Net assets at end of year</b>	<b>\$ 3,662,125</b>	<b>\$ 236,630</b>	<b>\$200,000</b>	<b>\$ 4,098,755</b>	<b>\$3,539,282</b>	<b>\$ 76,863</b>	<b>\$200,000</b>	<b>\$3,816,145</b>

See Notes to Financial Statements

# KIPP ACADEMY CHARTER SCHOOL

## STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2006

	School Operations	KIPP to College	KIPP Opportunity Fund	KIPP NYC Expansion Program	Orchestra Special Programs	Total Program Services	Management and General	Fund-raising	Total
Salaries	\$ 1,656,992	\$ 531,682		\$ 153,940		\$ 2,342,614	\$ 220,276	\$ 141,099	\$ 2,703,989
Retro salaries	42,344					42,344			42,344
Payroll taxes and employee benefits	336,426	93,897		11,423		441,746	44,055	28,220	514,021
Equipment	15,984	4,397			\$ 1,179	21,560			21,560
Consultants	50,491	19,446			74,284	144,221	2,823		147,044
Professional fees							85,504		85,504
Building costs				1,880		1,880			1,880
Supplies and instructional materials	28,506	3,361		1,263	3,549	36,679	3,503	5,441	45,623
Telephone and Internet	12,538	3,423				15,961	316		16,277
Insurance	65,468	32,639				98,107			98,107
Postage	4,738	1,907		144	906	7,695	76		7,771
Photocopying/printing	18,234	10,967		14	3,865	33,080			33,080
Food services	13,005	1,753			17,767	32,525		88	32,613
Orchestra	13,112				57,119	70,231			70,231
Field lessons (local and out-of-state)	159,331	1,920			2,623	163,874			163,874
Academic programming	39,575	5,746				45,321			45,321
Staff development	44,149	15,757		63,624	2,199	125,729	1,171	460	127,360
Alumni programming		15,515				15,515			15,515
Alumni tuition		1,381	\$ 118,286			119,667			119,667
Alumni stipend		105,129	(1,100)			104,029			104,029
Fees	3,540	878				4,418		624	5,042
Interest	4,707					4,707			4,707
Depreciation and amortization	111,970	17,634		86,865	4,295	220,764	733		221,497
<b>Total operating expenses</b>	<b>2,621,110</b>	<b>867,432</b>	<b>\$ 117,186</b>	<b>\$ 319,153</b>	<b>\$ 167,786</b>	<b>\$ 4,092,667</b>	<b>\$ 358,457</b>	<b>\$ 175,932</b>	<b>\$ 4,627,056</b>
Management and general	157,631	200,826							
Fund-raising	75,004	100,928							
Less: retro salaries	42,344								
<b>Subtotal</b>	<b>\$ 2,811,401</b>	<b>\$ 1,169,186</b>							
Total number of students	249	411							
Average cost per student	\$ 11,291	\$ 2,845							

See Notes to Financial Statements

**KIPP ACADEMY CHARTER SCHOOL**  
**STATEMENT OF FUNCTIONAL EXPENSES**

Year ended June 30, 2005

	School Operations	KIPP to College	KIPP Opportunity Fund	KIPP NYC Expansion Program	Orchestra Special Programs	Total Program Services	Management and General	Fund-raising	Total
Salaries	\$ 1,305,319	\$366,286		\$ 96,667		\$ 1,768,272	\$104,269	\$209,194	\$2,081,735
Payroll taxes and employee benefits	288,964	50,000		7,095		346,059	8,326	15,853	370,238
Equipment	2,479	3,009		1,003	\$ 11,496	17,987	(93)	(93)	17,801
Professional fees	46,752	22,573				69,325	73,191	9,740	152,256
Building costs	17,463	4,920				22,383			22,383
Supplies and instructional materials	94,215	22,038		4,139		120,392	5,592	18,110	144,094
Telephone and Internet	14,078	586				14,664	510	510	15,684
Insurance	91,045	750				91,795			91,795
Food services	25,825	3,735				30,015		40,074	70,089
Orchestra					103,251	103,251		51,798	155,049
Field lessons (local and out-of-state)	172,278	6,120				178,398			178,398
Staff development	24,212	7,603		13,281		45,096		662	45,758
Alumni tuition			\$130,664			130,664			130,664
Alumni stipend		118,944				118,944			118,944
Fees		994	27			1,021	5,769		6,790
Interest	3,325					3,325	416	416	4,157
Depreciation and amortization	95,489					95,489			95,489
<b>Total operational expenses</b>	<b>2,181,444</b>	<b>607,558</b>	<b>\$130,691</b>	<b>\$122,185</b>	<b>\$115,202</b>	<b>\$ 3,157,080</b>	<b>\$197,980</b>	<b>\$ 346,264</b>	<b>\$3,701,324</b>
Management and general	158,384	39,596							
Fund-raising	277,011	69,253							
<b>Subtotal</b>	<b>\$2,616,839</b>	<b>\$716,407</b>							
Total number of students	250	303							
Average cost per student	\$ 10,467	\$ 2,364							

See Notes to Financial Statements

# KIPP ACADEMY CHARTER SCHOOL

## STATEMENT OF CASH FLOWS

Year ended June 30,	2006	2005
Cash flows from operating activities:		
Change in net assets	\$ 282,610	\$ 485,031
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	221,497	95,489
Gain on disposal of equipment	(18,493)	
Changes in operating assets and liabilities:		
Increase in grants receivable	(362,379)	(71,983)
Increase in other assets	(25,998)	(698)
Increase in due from related parties, net	(317,053)	
Increase in accounts payable and accrued expenses	147,953	44,750
(Decrease) increase in due to related parties, net	(84,040)	84,040
<b>Net cash provided by (used in) operating activities</b>	<b>(155,903)</b>	<b>636,629</b>
Cash used in investing activity - purchases of property and equipment	(528,007)	(164,661)
Cash used in financing activity - payments made on capital lease obligations, net of proceeds	(53,257)	(36,507)
Net increase (decrease) in cash and cash equivalents	(737,167)	435,461
Cash and cash equivalents at beginning of year	3,565,517	3,130,056
Cash and cash equivalents at end of year	\$2,828,350	\$3,565,517
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the year for interest	\$ 5,163	
<b>Supplemental schedule of noncash investing and financing activities:</b>		
Capital lease obligation incurred for termination of equipment		\$ (12,529)
Purchases of equipment financed by leases	\$ 79,979	

See Notes to Financial Statements



# KIPP ACADEMY CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS June 30, 2006

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

KIPP Academy Charter School (the "School") is an education corporation that operates as a charter school in the borough of the Bronx, New York City. On May 4, 2000, the Board of Regents of the City of New York for and on behalf of the State Education Department granted the School a provisional charter valid for a term of five years from the effective date of September 1, 2000 and renewable upon expiration. The Charter was renewed and is effective through August 31, 2010. The School was converted from an existing New York City Department of Education school. The School's mission is to prepare students with the academic and character skills necessary to succeed in high school, college and the competitive world beyond.

In fiscal year 2006, the School operated middle school classes for students in grades five through eight.

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 to 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 governments resulting from the School's charter status and based on the number of students enrolled is recorded when services are performed in accordance with the charter agreement. Federal and state funds are recorded by the School when expenditures are incurred and billable.

# KIPP ACADEMY CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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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. These 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.

The School considers all highly liquid instruments purchased with a maturity of six months or less to be cash equivalents. Cash equivalents consist of United States Treasury Bills.

In accordance with the agreement to convert the School from the existing New York City Department of Education school, the teachers of the School are members of the United Federation of Teachers (the "UFT").

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 the minimum lease payments or the fair value of the leased asset. Amortization on assets leased under capital leases is recorded on a straight-line basis over the estimated useful life of the asset or the term of the lease, depending on the criteria used to capitalize the lease.

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 those differences could be significant.

For comparability, certain 2005 amounts have been reclassified, where appropriate to conform with the financial statement presentation used in 2006.

## **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.

# KIPP ACADEMY CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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

**3. PROPERTY AND EQUIPMENT, NET:**

Property and equipment, net, at cost, consists of the following:

June 30,	2006	2005	Estimated Useful Life
Furniture and fixtures	\$ 37,442	\$ 28,928	5 to 7 years
Equipment and other	1,107,594	607,989	3 to 7 years
Less accumulated depreciation and amortization	1,145,036	636,917	
	\$ 730,622	\$325,640	

Property and equipment includes three copiers acquired under capital leases. As of June 30, 2006 and 2005, the leased copiers are reflected at a cost of \$79,979 and \$136,853, respectively, and related accumulated depreciation amounted to \$44,528 and \$106,032, respectively. Additionally, during fiscal 2006 three copiers previously acquired under capital leases and reflected at a cost of \$136,853 with related accumulated depreciation of \$118,360, were written off, resulting in the recording of a gain on disposal of equipment amounting to \$18,493 and included in interest and other income in the accompanying statement of activities.

**4. TAX STATUS:**

The Internal Revenue Service has determined that the School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

**5. AGREEMENT FOR SCHOOL FACILITY:**

The School occupies approximately 22,000 square feet of space in its original facility since inception. The School is still negotiating formal terms with the New York City Department of Education for this dedicated and shared space at PS 151, a New York City public school, located at 250 East 156<sup>th</sup> Street in the South Bronx, New York. The facility is provided to the School at no cost. The School is responsible for any overtime-related costs for services provided beyond regular opening hours. These costs have been included in building costs in the accompanying statement of functional expenses and totaled \$1,880 and \$22,383 for the years ended June 30, 2006 and 2005, respectively.

**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.

# KIPP ACADEMY CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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The significant activities are:

### School Operations

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

### KIPP to College

Represents work (time and materials) directly associated with this program. The goal of the program is to ensure that KIPP alumni are able to overcome any obstacle they face and pursue successful futures. The program achieves this goal by providing academic, support services, counseling, extracurricular activities, summer internships and extensive support in the college application process.

### KIPP Opportunity Fund

Represents work (time and materials) directly associated with this program. The goal of the program is to provide financial assistance on a need and merit basis to KIPP alumni in three areas: tuition assistance for high school or college, summer internship stipends for students in high school or college, and education support stipends (e.g., books, travel to and from school, sports equipment, etc.).

### KIPP NYC Expansion Program

This program consists of three positions dedicated to KIPP's continued growth and success in New York City. This program includes KIPP NYC high school expansion plans, KIPP NYC elementary school expansion plans, KIPP Governors Island and the "Your Name Here" Teacher University.

### Orchestra Special Programs

Represents work (time and materials) directly associated with the touring and special performances of the KIPP String and Rhythm Orchestra occurring annually. The KIPP String and Rhythm Orchestra is widely regarded as among the finest school orchestras in the nation. This program is designed to teach students the desire, discipline and dedication that will lead to academic life success. The Orchestra participates in activities beyond the scope of the School on a regular basis. Such activities have included the KIPP Foundation's annual KIPP School Summit as well as the KIPP NYC Celebration Concert.

The significant supporting services are:

### Management and General

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

# KIPP ACADEMY CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

### Fund-raising

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

### 7. RESTRICTIONS ON NET ASSET BALANCES:

Temporarily restricted net assets are restricted as of June 30, 2006 and 2005, for various purposes as follows:

	Balance at 6/30/05	New Restricted Grants	Less Expenditures	Balance at 6/30/06
Furniture and fixtures	\$57,065		\$ 8,516	\$ 48,549
KIPP to College		\$ 75,000	75,000	
KIPP Opportunities Fund		12,500	12,500	
KIPP to College Endowment Fund		837,500	837,500	
Orchestra	19,798	113,443	133,241	
Technology improvements		500,000	406,718	93,282
Time restricted		305,200	210,401	94,799
	\$76,863	\$1,843,643	\$1,683,876	\$236,630

	Balance at 6/30/04	New Restricted Grants	Less Expenditures	Balance at 6/30/05
Extended day and summer school programming	\$ 30,000		\$ 30,000	
Furniture and fixtures	65,163		8,098	\$57,065
KIPP to College Endowment Fund	66,662		66,662	
NYC Expansion program		\$100,000	100,000	
Orchestra	10,000	125,000	115,202	19,798
	\$171,825	\$225,000	\$319,962	\$76,863

The KIPP to College Endowment Fund utilizes the annual income and principal of the Fund to support tuition and other KIPP to College expenses.

Permanently restricted net assets are restricted in an endowment fund from the Louis Calder Foundation. The return generated from the endowment is expendable to provide scholarship assistance to KIPP graduates attending private or parochial schools.

# KIPP ACADEMY CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

### 8. CAPITAL LEASE OBLIGATION:

The School leases office equipment under capital leases expiring through November 2009. The leases require monthly payments of principal and interest ranging from \$415 to \$1,299 at rates ranging from 5.13% to 8% per annum. Future minimum payments under the leases are as follows:

Year ending June 30,

2007	\$25,735
2008	22,416
2009	13,323
2010	2,845

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	64,319
Less interest portion	5,075

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<b>Capital lease obligation</b>	<b>\$59,244</b>
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### 9. LEASE COMMITMENT:

The School leases office equipment under a noncancelable operating lease expiring in December 2008. Future minimum payments under this lease are as follows:

Year ending June 30,

2007	\$15,600
2008	15,600
2009	7,800

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	\$39,000
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For the year ended June 30, 2006, rent expense incurred in connection with this noncancelable operating lease amounted to approximately \$8,000.

### 10. CONTINGENCY:

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

### 11. PENSION PLAN:

In accordance with employment contracts with the UFT, the School is required to contribute to a multi-employer defined benefit pension plan (the "Plan") on behalf of the teachers. The amount charged to operations for contributions to this Plan amounted to \$110,850 and \$91,613 for the years ended June 30, 2006 and 2005, respectively.

In the event of withdrawal from the Plan, the School may be required to record an obligation for its portion of the unfunded benefit obligation of the Plan. Such amounts, if any, are not presently determinable.



# 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 Academy Charter School

We have audited the financial statements of KIPP Academy Charter School (the "School") as of June 30, 2006 and 2005 and for the years then ended, and have issued our report thereon dated September 27, 2006. We conducted our audits 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 audits, 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 have been reported to management in a separate letter dated September 27, 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, and the New York State Education Department and the Board of Regents of the University of the State of New York entities and is not intended to be and should not be used by anyone other than these specified parties.

*Goldstein Golub Kessler LLP*

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September 27, 2006

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