

**KIPP EAST NASHVILLE PREPARATORY  
DBA KIPP ACADEMY NASHVILLE  
FINANCIAL STATEMENTS  
June 30, 2010**

**KIPP EAST NASHVILLE PREPARATORY**  
**DBA KIPP ACADEMY NASHVILLE**  
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## **REPORT OF INDEPENDENT ACCOUNTANTS**

The Board of Directors  
KIPP East Nashville Preparatory  
dba KIPP Academy Nashville  
Nashville, Tennessee

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of KIPP East Nashville Preparatory dba KIPP Academy Nashville (the School) as of and for the year ended June 30, 2010, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

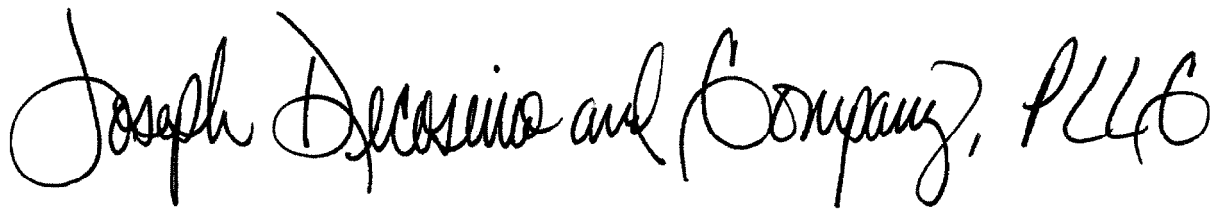
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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 the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of KIPP East Nashville Preparatory dba KIPP Academy Nashville as of June 30, 2010, and the respective changes in financial position 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 December 31, 2010, on our consideration of the School's internal control over financial reporting and on our test 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.

The Management's Discussion and Analysis on pages three through eight is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise KIPP East Nashville Preparatory dba KIPP Academy Nashville's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal financial assistance is presented for the purpose of additional analysis as required by the State of Tennessee Comptroller of the Treasury, *Audit Manual for Local Governmental Units and Recipients of Grant Funds* and is not a required part of the basic financial statements. The combining nonmajor fund financial statements and schedule of expenditures of federal financial assistance have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Joseph DeCesario and Company, PLLC". The signature is written in a cursive, flowing style.

Nashville, Tennessee  
December 31, 2010

**KIPP EAST NASHVILLE PREPARATORY**  
**DBA KIPP ACADEMY NASHVILLE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Year Ended June 30, 2010**

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Our discussion and analysis of KIPP East Nashville Preparatory dba KIPP Academy Nashville's annual financial performance provides an overview of the School's financial activities for the fiscal year ended June 30, 2010. This section should be read in conjunction with the financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

- The assets of the School exceeded its liabilities by \$1,295,571
- Net assets increased \$400,438 during the year
- Outlays for new capital assets totaled \$68,913
- Total revenues of \$2,756,218 were comprised of Federal Passthrough Funds - 7.5%, District Funds - 72.5% and Charitable Giving/Other - 20.0%

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This financial report consists of a series of financial statements, notes to those statements and required supplementary information. The statements are organized so that the reader can understand the School as a whole and then proceed to a detailed look at specific financial activities of the School.

**Reporting the School as a Whole**

**The Statement of Net Assets and Statement of Activities**

In general, users of these financial statements want to know if the School is better off or worse off as a result of the year's activities. The statement of net assets and statement of activities report information about the School as a whole and about the School's activities in a manner that helps to answer that question. These statements include all assets and liabilities using the accrual basis of accounting. Under the accrual basis, all of the current year's revenue and expenses are taken into consideration regardless of when cash is received or paid. The statements start on page nine.

The statement of net assets reports the School's net assets (total assets less total liabilities). Private sector entities would report retained earnings. The School's net asset balance at year end represents available resources for future growth. The statement of activities reports the change in net assets as a result of activity during the year. Private sector entities have a similar report titled statement of operations, which reports net income. It provides the user a tool to assist in determining the direction of the School's financial health during the year. Users will want to consider non-financial factors as well as the financial data in arriving at a conclusion regarding the overall health of the School.

**KIPP EAST NASHVILLE PREPARATORY**  
**DBA KIPP ACADEMY NASHVILLE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Year Ended June 30, 2010**

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Reporting the School's Funds

Fund Financial Statements

The School's fund financial statements, the balance sheet and the statement of revenues, expenditures and changes in fund balances, begin on page eleven. They provide detailed information about the School's most significant funds, not the School as a whole. Funds are established by the School to help manage money for particular purposes and compliance with various grant provisions.

The School's funds are categorized as "governmental funds." Governmental funds focus on how money flows into and out of the funds and the balances left at year-end that are available for spending in future periods. Fund financial statements are reported using an accounting method called "modified accrual" accounting, which measures cash and other financial assets that can readily be converted to cash. This basis of accounting is different from the accrual basis used in the school wide financial statements to report on the School as a whole. The relationship between governmental activities, as reported in the statement of net assets and the statement of activities, and governmental funds, as reported in the balance sheet and the statement of revenues, expenditures and changes in fund balances is reconciled in the basic financial statements on pages twelve and fourteen.

SCHOOL WIDE FINANCIAL ANALYSIS

Net Assets

The School's assets exceeded the School's liabilities at the close of the fiscal year, resulting in net assets of \$1,295,571. The School's net assets include \$1,045,648 of cash and investments, \$46,425 of which is subject to external restrictions which limit how the cash may be used. The remainder of the cash is available to meet the School's ongoing activities.

As of June 30, 2010, the School had invested \$677,518 in capital assets. This investment includes instructional and support furniture, instructional computers for teachers, mobile student computer labs, maintenance equipment and books for instructional purposes, establishment of a library and the enhancement of its reading program. See Note 2 to the financial statements for more details. The School expects additional property and equipment investments in the 2010-2011 school year with increased student enrollment at each grade level. With the additional students there will be continued requirements for furniture, computers and equipment. The School facility is currently large enough to accommodate increased student enrollment for all grades, fifth through eighth. Additional information on property and equipment is located in the notes to the financial statements.

The School is currently renting educational space from the Metropolitan Nashville Board of Public Education. The building was originally built in the 1920's with a major addition in the 1960's. The current lease term ends June 30, 2011.

The School has no debt as of the end of the fiscal year.

**KIPP EAST NASHVILLE PREPARATORY**  
**DBA KIPP ACADEMY NASHVILLE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Year Ended June 30, 2010**

A schedule of the School's net assets as of June 30, 2010 and 2009, is as follows:

	2010	2009
Current assets	\$ 1,165,109	\$ 660,834
Capital assets	<u>273,319</u>	<u>325,932</u>
Total assets	<u>1,438,428</u>	<u>986,766</u>
Current liabilities	<u>142,857</u>	<u>91,633</u>
Net assets		
Invested in capital assets	273,319	325,932
Restricted	92,349	57,210
Unrestricted	<u>929,903</u>	<u>511,991</u>
Total net assets	<u>\$ 1,295,571</u>	<u>\$ 895,133</u>

**Changes in Net Assets**

The School's total net assets increased \$400,438 during the 2010 fiscal year. The increase in the School's net assets indicates that the School had more incoming revenues than outgoing expenses during the year. Total revenues generated from government grants, governmental funds, foundation grants and donations were \$2,749,476 during the 2010 fiscal year. The actual increase in net assets compared to what was budgeted was a result of both a decrease in actual expenses including both lower than projected staffing and operational costs and an increase in revenues from better than projected non-governmental contributions.

Contributions from individuals and organizations of \$485,261 were higher than expected due primarily to continued support from existing individual and corporate donors and the identification of new individual and corporate donors. In particular, the School held its first ever community wide fundraising event this fiscal year. The event was well attended and provided the school with the opportunity to update existing donors on the School's progress and introduce the School to prospective new donors. Individual and corporate contributions are crucial to the School's ability to provide more than 30% class time and end of school experiences for the approximately 85% of students who earned the right to participate. These experiences, which over the years have included visits to Washington, DC, Atlanta and Colorado, are invaluable extensions of both our character and academic curriculums.

**KIPP EAST NASHVILLE PREPARATORY**  
**DBA KIPP ACADEMY NASHVILLE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Year Ended June 30, 2010**

A schedule of the School's revenue and expenses for the years ended June 30, 2010 and 2009, is as follows. The schedule is for the School as a whole, not for the governmental funds.

	<b>2010</b>	2009
<b>Revenues</b>		
Contributions	\$ 485,261	\$ 257,823
District funding	2,041,371	1,680,206
Federal subrecipient grants	211,961	69,373
Interest	6,742	2,099
Other income	10,883	11,425
State and local funding	<u>-</u>	<u>5,600</u>
	<u><b>2,756,218</b></u>	<u><b>2,026,526</b></u>
<b>Expenses</b>		
Depreciation	120,825	136,148
Instructional	88,975	82,607
Occupancy cost	206,450	155,253
Office expense	26,660	17,801
Organizational development	61,848	14,805
Other expenses	75,492	49,584
Service fees	106,399	105,354
Salaries, wages and benefits	1,606,647	1,504,635
Staff development	48,494	54,645
Transportation	<u>13,990</u>	<u>12,903</u>
	<u><b>2,355,780</b></u>	<u><b>2,133,735</b></u>
 Change in net assets	 <u><b>\$ 400,438</b></u>	 <u><b>\$ (107,209)</b></u>

**FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS**

The School's funds, as presented on the balance sheet on page eleven reported a combined fund balance of \$965,377. The majority of the School's total funds are in the General Fund which is the chief operating fund of the School. The School has no other major funds. Nonmajor funds comprise less than 10% of the School's total funds. Nonmajor funds consist primarily of restricted grants and donations.

Due to the different basis of accounting, there is a difference between the amounts reported under the School's funds and the amounts reported as school wide. For the June 30, 2010 year end, the differences are minor and consist of capital assets which are not reported in the School's funds.

**KIPP EAST NASHVILLE PREPARATORY**  
**DBA KIPP ACADEMY NASHVILLE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Year Ended June 30, 2010**

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**SCHOOL ACTIVITIES**

Proving what is possible in public education, the School is one of 99 KIPP (Knowledge is Power Program) schools serving over 21,000 students in 20 states and the District of Columbia. The KIPP program is dedicated to closing the achievement gap in education among students in low-income communities. Historically, more than 85% of students that complete 8th grade at a KIPP school enroll in college - compared to a 40% college matriculation rate for low-income students nationwide.

The School began preparations to start a high-performing public charter school in Nashville in 2003. In July 2005, the School opened as a non-profit charter middle school (grades five through eight) serving youth from economically disadvantaged neighborhoods in Nashville.

With only 50 students in 2005, student enrollment increased to over 260 students in 2009-10. Enrollment in the 2010-2011 school year is expected to exceed 300. Historically, over 90% of the School's students were African American and over 90% qualified for the national free/reduced lunch program. Since 2005, over 10% of the School's students have been special education students. Attendance for the 2009-2010 school year was 98% of possible attendance days.

Through high expectations for academic achievement and conduct and a belief that with hard work all students will learn, the School's Extended Learning Program encompasses over 30% more class time to prepare students for success by placing them on a path to more opportunities and choice in life through education. The school year begins with three weeks of concentrated instruction in July. The School provides instruction from 8:00-5:00, Monday, Tuesday and Thursday and on Wednesday and Friday from 8:00-3:30. The School's students attend an optional Saturday school twice a month for enrichment activities. This additional time on task helps our students make significant academic gains.

To measure our program's effectiveness, the School administers the Stanford Achievement Test (SAT 10) to its students at the beginning of the school year and again at the end. From Fall 2005 to Spring 2009, members of the inaugural class improved from 12<sup>th</sup> percentile to 45<sup>th</sup> percentile in reading; from 16<sup>th</sup> percentile to 56<sup>th</sup> percentile in math; and from 12<sup>th</sup> percentile to 56<sup>th</sup> percentile in language. From Fall 2006 to Spring 2010, members of the second class KIPP students improved from the 19<sup>th</sup> to the 59<sup>th</sup> percentile in reading; from the 26<sup>th</sup> to the 59<sup>th</sup> percentile in math; and from the 17<sup>th</sup> to the 56<sup>th</sup> percentile in language. As measured by the Tennessee Comprehensive Assessment Program (TCAP), at the end of the 2008-2009 school year, KIPP Academy Nashville students were 91% proficient or advanced in Reading, and 92% proficient or advanced in Math. In addition, 88% of KIPP Academy Nashville fifth graders were competent in writing as measured by the fifth grade TCAP Writing Assessment. We believe these results represent a compelling start toward achieving the goal of matriculation to college for these students in 2014, 2015, 2016 and 2017.

**KIPP EAST NASHVILLE PREPARATORY  
DBA KIPP ACADEMY NASHVILLE  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Year Ended June 30, 2010**

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**STUDENT ENROLLMENT FACTORS AND NEXT YEAR'S BUDGET**

Enrollment: FY 2011 enrollment is projected to be over 300 students. Revenues: We anticipate an increase in total Basic Education Program (BEP) funding as a result of increased enrollment across all grades. Additionally, we expect a small increase in per pupil BEP funding. The Metropolitan Nashville Administrative Services processing fee has been discontinued which will also increase useable BEP funds. For FY 2011, the School expects to raise approximately \$435,000 in non-government funds. The School's management believes increased administrative resources and volunteer personnel designated for fundraising, a larger Board of Directors, and the appointment of a Board committee with fundraising oversight should help the School reach its goal. These non-government resources are an important funding source to meet the 15-20% gap in funding each year from state and federal resources which do not cover the cost of operating extended school hours or programming.

For FY 2010-2011, in addition to serving the School's current student population of over 300 students, the School plans to invest in long-term growth plan for opening new KIPP charter schools in Nashville. These investments will include hiring additional staff, professional development, and general and administrative expenses specific to the further development and execution of the KIPP Nashville strategic growth plan.

**CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our students' parents, Davidson County taxpayers, donors, creditors, authorities over grant funding and agencies tasked with oversight of Nashville and Davidson County public schools with a general overview of the School's finances and to demonstrate the School's accountability of the money it receives. If you have questions about this report or need additional financial information, contact the School's Director of Finance and Operations, Thomas Branch, at 123 Douglas Avenue, Nashville, TN 37207, by telephone at (615) 226-4484 or email [tbranch@kipacademynashville.org](mailto:tbranch@kipacademynashville.org).

**KIPP EAST NASHVILLE PREPARATORY**  
**DBA KIPP ACADEMY NASHVILLE**  
**STATEMENT OF NET ASSETS**

**June 30, 2010**

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	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash	\$ 1,045,648
Prepaid items	15,558
Receivables	103,903
Capital assets, net	<u>273,319</u>
Total assets	<u>1,438,428</u>
<b>LIABILITIES</b>	
Accounts payable	92,508
Accrued expenses	<u>50,349</u>
Total liabilities	<u>142,857</u>
<b>NET ASSETS</b>	
Invested in capital assets	273,319
Restricted	92,349
Unrestricted	<u>929,903</u>
Total net assets	\$ <u>1,295,571</u>

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

**KIPP EAST NASHVILLE PREPARATORY**  
**DBA KIPP ACADEMY NASHVILLE**  
**STATEMENT OF ACTIVITIES**

**Year Ended June 30, 2010**

		<b>Functions</b>		
		<b>Student Instruction and Services</b>	<b>Administration</b>	<b>Fundraising</b>
	<b>Total</b>			
<b>EXPENSES</b>				
Depreciation	\$ 120,825	\$ 70,356	\$ 50,469	\$ -
Instructional	88,975	88,975	-	-
Occupancy cost	206,450	175,483	30,967	-
Office expense	26,660	25,942	718	-
Organizational development	61,848	15,402	2,488	43,958
Other expenses	75,492	48,580	26,912	-
Service fees	106,399	21,921	84,478	-
Salaries, wages and benefits	1,606,647	1,373,227	233,420	-
Staff development	48,494	45,254	3,240	-
Transportation	<u>13,990</u>	<u>13,990</u>	<u>-</u>	<u>-</u>
Total expenses	2,355,780	1,879,130	432,692	43,958
<b>PROGRAM REVENUES</b>				
Operating grants and contributions	<u>352,433</u>	<u>352,433</u>	<u>-</u>	<u>-</u>
Net program expenses	<u>2,003,347</u>	<u>\$ 1,174,264</u>	<u>\$ 432,692</u>	<u>\$ 43,958</u>
<b>GENERAL REVENUES</b>				
Contributions	355,672			
District funding	2,041,371			
Interest	<u>6,742</u>			
Total general revenues	<u>2,403,785</u>			
<b>CHANGE IN NET ASSETS</b>	400,438			
<b>NET ASSETS - beginning of year</b>	<u>895,133</u>			
<b>NET ASSETS - end of year</b>	<u>\$ 1,295,571</u>			

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

**KIPP EAST NASHVILLE PREPARATORY**  
**DBA KIPP ACADEMY NASHVILLE**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**

**June 30, 2010**

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	<b>General Fund</b>	<b>Other Governmental Funds</b>	<b>Total</b>
<b>ASSETS</b>			
Cash	\$ 999,223	\$ 46,425	\$ 1,045,648
Prepaid items	15,558	-	15,558
Receivables	<u>20,099</u>	<u>26,929</u>	<u>47,028</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 1,034,880</u></b>	<b><u>\$ 73,354</u></b>	<b><u>\$ 1,108,234</u></b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 92,508	\$ -	\$ 92,508
Accrued expenses	<u>50,349</u>	<u>-</u>	<u>50,349</u>
Total liabilities	<u>142,857</u>	<u>-</u>	<u>142,857</u>
<b>FUND BALANCES</b>			
Nonspendable	15,558	-	15,558
Restricted	-	59,639	59,639
Assigned	-	13,715	13,715
Unassigned	<u>876,465</u>	<u>-</u>	<u>876,465</u>
Total fund balances	<u>892,023</u>	<u>73,354</u>	<u>965,377</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 1,034,880</u></b>	<b><u>\$ 73,354</u></b>	<b><u>\$ 1,108,234</u></b>

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

**KIPP EAST NASHVILLE PREPARATORY**  
**DBA KIPP ACADEMY NASHVILLE**  
**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES**  
**TO NET ASSETS OF GOVERNMENTAL ACTIVITIES**

**June 30, 2010**

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<b>Total Governmental Fund Balances</b>	\$ 965,377
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*Amounts reported for governmental activities in the statement  
of net assets are different because:*

Receivables in the Statement of Net Assets that do not provide current financial resources and are not reported on the Balance Sheet Governmental Funds.	56,875
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	<u>273,319</u>
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<b>NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b>\$ <u>1,295,571</u></b>
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The accompanying notes are an integral part of the financial statements.

**KIPP EAST NASHVILLE PREPARATORY****DBA KIPP ACADEMY NASHVILLE****STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS****Year Ended June 30, 2010**

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	<b>General Fund</b>	<b>Other Governmental Funds</b>	<b>Total</b>
<b>REVENUES</b>			
Contributions	\$ 383,032	\$ 45,354	\$ 428,386
District funding	1,983,760	57,611	2,041,371
Federal subrecipient grant	3,296	220,039	223,335
Interest	6,539	203	6,742
Other income	<u>15,225</u>	<u>(4,342)</u>	<u>10,883</u>
Total revenues	<u>2,391,852</u>	<u>318,865</u>	<u>2,710,717</u>
<b>EXPENDITURES</b>			
Instructional	70,584	7,611	78,195
Occupancy cost	206,450	-	206,450
Office expense	36,439	1,000	37,439
Organizational development	61,848	-	61,848
Other expenses	70,542	4,249	74,791
Professional and service fees	106,399	-	106,399
Salaries, wages and benefits	1,348,635	258,013	1,606,648
Staff development	38,069	10,425	48,494
Transportation	13,990	-	13,990
Capital outlays	<u>58,864</u>	<u>10,049</u>	<u>68,913</u>
Total expenditures	<u>2,011,820</u>	<u>291,347</u>	<u>2,303,167</u>
<b>NET CHANGE IN FUND BALANCES</b>	380,032	27,518	407,550
<b>FUND BALANCES - beginning of year</b>	<u>511,991</u>	<u>45,836</u>	<u>557,827</u>
<b>FUND BALANCES - end of year</b>	<u>\$ 892,023</u>	<u>\$ 73,354</u>	<u>\$ 965,377</u>

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

**KIPP EAST NASHVILLE PREPARATORY**  
**DBA KIPP ACADEMY NASHVILLE**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO**  
**THE STATEMENT OF ACTIVITIES**

**Year Ended June 30, 2010**

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<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ <u>407,550</u></b>
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
Prior period revenue in the statement of activities that provided current financial resources in the funds	(12,075)
Capital outlay, reported as expenditures in governmental funds are shown as capital assets in the statement of net assets.	68,913
Depreciation expense on governmental capital assets are included only in the governmental activities in the statement of activities.	(120,825)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	<u>56,875</u>
Total	<u>(7,112)</u>
<b>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b>\$ <u>400,438</u></b>

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

**KIPP EAST NASHVILLE PREPARATORY**  
**DBA KIPP ACADEMY NASHVILLE**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies and procedures followed by the School are as follows:

**ORGANIZATION** - KIPP East Nashville Preparatory dba KIPP Academy Nashville was incorporated October 22, 2003, as a Tennessee nonprofit corporation. Pursuant to Section 6(1)(a) of the Tennessee Public Charter School Act of 2002 (the Act), the School has been approved as a public charter school. Pursuant to the Act, public charter schools are part of the state's public education program offering an alternative means within the public school system for accomplishing necessary outcomes of education. The School entered into a Charter School Agreement with the Metropolitan Nashville Board of Education on September 1, 2005, (with an effective date of July 1, 2005) to operate a charter school in Nashville, Tennessee. The School entered into a license agreement with KIPP Foundation, a California Public Charity, to assist the School in providing educationally underserved students with the knowledge, skills and character needed to succeed in top-quality high schools, colleges and the competitive world beyond. KIPP and the Knowledge Is Power Program are trademarks of the KIPP Foundation. The School began classes in July 2005 with a fifth grade class and added an additional grade each year culminating with the addition of an eighth grade in the 2008-2009 fiscal year.

**BASIS OF ACCOUNTING** - The School's financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB).

The School, in accordance with GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis for State and Local Governments* (Statement 34), is considered a special purpose governmental entity that is engaged in governmental type activities and is not a component unit of another governmental entity. Therefore, the financial statements are prepared in the same manner as general purpose governments.

The School's basic financial statements include both government-wide (reporting the School as a whole) and fund financial statements (reporting the School's major funds). The School's primary activities are all considered to be governmental activities and are classified as such in the government-wide and fund financial statements.

The government-wide financial statements of the School have been prepared on the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recognized when incurred.

The governmental fund financial statements are presented on the modified accrual basis of accounting. Revenues under the modified accrual basis are recognized when measurable and available and expenses are recognized when the related liability is incurred.

**KIPP EAST NASHVILLE PREPARATORY**  
**DBA KIPP ACADEMY NASHVILLE**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**BASIC FINANCIAL STATEMENTS - GOVERNMENT-WIDE FINANCIAL STATEMENTS** - The government-wide financial statements focus on the sustainability of the School as an entity and the change in the School's net assets resulting from the current year's activities.

In the government-wide statement of net assets, activities are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The statement of net assets presents the financial condition of the School at year end.

Statement 34 requires the classification of net assets into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

*Invested in capital assets, net of related debt* - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by outstanding balances (if any) of bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net asset component as the unspent proceeds.

*Restricted* - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

*Unrestricted* - This component of net assets consists of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt. When both restricted and unrestricted assets are available for use, it is the School's policy to utilize restricted assets first, then unrestricted assets as needed.

The government-wide statement of activities reports both the gross and net cost of the School's functions. The functions are also supported by general government revenues (general revenues are primarily made up of district BEP funding and donations to the General Fund). The statement of activities reduces gross expenses by related function revenues, operating and capital grants. Program revenues must be directly associated with the function. The net costs by function are normally covered by general revenue. The School allocates indirect cost between functions.

**BASIC FINANCIAL STATEMENTS - FUND FINANCIAL STATEMENTS** - The financial transactions of the School are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues and expenses.

**KIPP EAST NASHVILLE PREPARATORY**  
**DBA KIPP ACADEMY NASHVILLE**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

The emphasis on fund financial statements is on the major funds. Nonmajor funds by category are summarized in a single column. Statement 34 sets forth minimum criteria for the determination of major funds. The School's only major fund is the General Fund. The General Fund is the School's primary operating fund. It accounts for all financial resources of the School, except those required to be accounted for in another fund.

The governmental funds' focus is upon the determination of financial resources, their balance, sources and use, rather than upon net income. The School classifies governmental fund balances as: nonspendable, restricted, committed, assigned and unassigned based on the level of constraints on the fund balances. When an expenditure is incurred in which both restricted and unrestricted funds are available for use, it is the School's policy to spend restricted funds first, then unrestricted funds. When an expenditure has been incurred for purposes in which multiple categories of unrestricted funds are available, it is the School's policy to spend funds in the following order, committed, then assigned, and lastly unassigned funds. The classifications of fund balances are defined as follows:

*Nonspendable* - This classification consists of fund balances that cannot be spent because they are either not in spendable form, for example, noncash amounts that are not expected to be converted to cash, or the funds are legally or contractually required to be maintained intact.

*Restricted* - This classification consists of fund balances with external constraints on use imposed by creditors (such as through debt covenants), contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

*Committed* - This classification consists of fund balances that can only be used for specific purposes established by formal action of the School's Board of Directors, its highest level of decision making authority. Such commitments should include contractual obligations of fund assets. Fund balance commitments can only be removed by the same process of the same body employed to previously commit those amounts.

*Assigned* - This classification consists of all fund balances that are not in the General Fund or classified as nonspendable, restricted or committed. In addition, General Fund balances that the School intends to use for specific purposes are also classified as assigned. The School gives the authority to assign amounts to specific purposes to the School's controller and personnel under the supervision of the controller tasked with financial recording responsibilities.

*Unassigned* - This classification consists of all fund balances in the General Fund that are not reported as nonspendable, restricted, committed or assigned.

**KIPP EAST NASHVILLE PREPARATORY**  
**DBA KIPP ACADEMY NASHVILLE**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**CASH** - The School considers deposits that can be redeemed on demand and investments that have original maturities of less than three months, when purchased, to be cash equivalents. As of June 30, 2010, the School's cash and cash equivalents were deposited in two financial institutions. The School routinely maintains deposit balances in excess of federally insured limits with certain financial institutions.

**RECEIVABLES** - Receivables represent amounts due from grants or funding which have been approved but not received. All receivables are reported at estimated collectible amounts.

**CAPITAL ASSETS** - Property and equipment are recorded at acquisition cost, if purchased, or the fair value on the date received, if donated. The cost of routine maintenance and repairs is expensed as incurred. Expenditures which materially extend the economic lives, change capacities or improve the efficiency of the related assets are capitalized. Upon sale or retirement, the cost and related accumulated depreciation are removed from the respective accounts, and the resulting gain or loss, if any, is included in the statement of activities. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, ranging from three to seven years, or over the term of the lease for leasehold improvements, if less. The School follows the practice of capitalizing all expenditures for property and equipment items over \$1,000.

**GRANTS** - The School received Federal financial assistance through state and private agencies. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies.

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School as of June 30, 2010.

**INCOME TAXES** - The School is a not-for-profit school that is exempt from federal income taxes under the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation and is similarly exempt from state income taxes.

**ESTIMATES AND UNCERTAINTIES** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**SUBSEQUENT EVENTS** - The School has evaluated subsequent events for potential recognition and disclosure through December 31, 2010, the date the financial statements were available to be issued.

**KIPP EAST NASHVILLE PREPARATORY**  
**DBA KIPP ACADEMY NASHVILLE**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**NOTE 2 - CAPITAL ASSETS**

Capital assets consist of the following:

	<b>June 30, 2009</b>	<b>Government-Wide</b>		<b>June 30, 2010</b>
		<b>Additions</b>	<b>Deletions</b>	
Computer equipment	\$ 131,047	\$ 17,540	\$ 699	\$ 147,888
Furniture and fixtures	73,802	6,190	-	79,992
Machinery and equipment	63,003	15,145	-	78,148
Text books	71,764	20,525	-	92,289
School buses	205,962	8,900	-	214,862
Library	<u>63,723</u>	<u>616</u>	<u>-</u>	<u>64,339</u>
	609,301	68,916	699	677,518
Accumulated depreciation	<u>(283,369)</u>	<u>(121,250)</u>	<u>(420)</u>	<u>(404,199)</u>
	<u>\$ 325,932</u>	<u>\$ (52,334)</u>	<u>\$ 279</u>	<u>\$ 273,319</u>

Depreciation expense was charged to functions as follows:

Governmental activities -	
Student instruction and services	\$ 70,356
Administration	50,469
Fundraising	<u>-</u>
Total governmental activities depreciation expense	<u>\$ 120,825</u>

**NOTE 3 - LINE OF CREDIT**

The School has a \$275,000 line of credit with a bank which expires February 24, 2011. As of June 30, 2010, no amounts were outstanding under the line.

**KIPP EAST NASHVILLE PREPARATORY**  
**DBA KIPP ACADEMY NASHVILLE**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

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**NOTE 4 - FEDERAL FUNDS**

The School has no direct Federal awards. All Federal monies were received as subrecipient funds. The School receives the passthrough funding from two funding sources. Title I Part A: Improving Basic Programs Operated by LEAs (Title 1) funds are received from MNPS. Title 1 is a Federal program that provides assistance to low income area schools to ensure that the schools meet challenging state academic standards. The School also received a Federal Fund for the Improvement of Education (IOE) grant. The IOE grant originates from the Department of Education/Office of Innovation and Improvement, but is provided to the School by the KIPP Foundation. The IOE grant provides financial assistance to contribute to the achievement of elementary and secondary students. Title 1 and IOE expenses totaled \$156,916 and \$47,500, respectively, for the year ended June 30, 2010.

**NOTE 5 - LEASING EXPENSES**

The facilities used to provide educational services are provided under a lease arrangement renewed annually from the Metropolitan Board of Public Education of Nashville and Davidson County. The arrangement requires the School to pay rent and insurance in equal monthly installments. Security, grounds maintenance, water, gas, electricity and DSL Internet service to the premises are provided in addition to allowing the School to occupy the facility. Under the terms of the lease, the School paid rent and insurance costs of \$119,097 and \$2,451, respectively, for the year ended June 30, 2010.

**NOTE 6 - RELATED PARTY TRANSACTIONS**

KIPP Foundation has the authority to appoint a member to the Board of Directors. This member is empowered to overrule the actions of the other members of the Board.

The School pays a licensing fee to KIPP Foundation equal to 1% of state and local per-pupil funding received, but not to exceed \$30,000. The agreement is for automatically renewable one-year terms. Total license fees incurred for the year ended June 30, 2010, were \$19,840.

The School's cafeteria is operated by the Metropolitan Nashville Public School System. The School reimburses MNPS for losses attributed to cafeteria operations. Total meal service expenses paid to MNPS for the year ended June 30, 2010, were \$8,031.

**KIPP EAST NASHVILLE PREPARATORY**  
**DBA KIPP ACADEMY NASHVILLE**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

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**NOTE 7 - CONCENTRATIONS**

The School received 70% of its funding for operations from MNPS based on the State of Tennessee's Basic Education Program (BEP). BEP funding is designated to schools based on student attendance. Gross BEP funding for the year ended June 30, 2010, was \$1,983,760. Outside fundraising for capital needs is on-going since the charter school agreement with MNPS does not include an allocation for capital expenditures.

Per the School's charter agreement, enrollment in the School is open to any student within the Metropolitan Nashville Public School System who would otherwise attend a school failing to make adequate yearly progress, as defined by the State Department of Education in compliance with the U.S. Department of Education guidelines. The School may only enroll students in grades five through eight. Student enrollment may not exceed three hundred twenty students.

**NOTE 8 - RETIREMENT PLAN**

**TEACHER PLAN DESCRIPTION** - The School contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing, multiple employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits to plan participants and their beneficiaries. Benefits are determined by a formula using the participant's high five-year average salary and years of service. Participants become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested participants who are at least 55 years of age or have 25 years of service. Disability benefits are available to active participants with five years of service and who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the participant was in the performance of duty. Participants joining the plan on or after July 1, 1979, are vested after five years of service. Participants joining prior to July 1, 1979, are vested after four years of service. Benefit provisions are established in state statutes found in Title 8, Chapters 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Cost of living adjustments (COLA) are provided to retirees each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year. No COLA is granted if CPI increases less than one-half percent. The annual COLA is capped at three percent.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the SETHEEPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at [www.treasury.state.tn.us](http://www.treasury.state.tn.us).

**FUNDING POLICY** - Participants are required to contribute 5.00% of their salary to the plan. The employer contribution rate is based on the rate for Davidson County Schools which is established at an actuarially determined rate. The employer rate for the year ended June 30, 2010, was 6.32% of annual covered payroll.

**KIPP EAST NASHVILLE PREPARATORY**  
**DBA KIPP ACADEMY NASHVILLE**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

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**NOTE 8 - RETIREMENT PLAN - continued**

NON-TEACHER PLAN DESCRIPTION - The School contributes to the Metropolitan Government of Nashville and Davidson County's Division B pension plan (Metro Plan), a defined benefit single-employer pension plan managed and administered by the Metropolitan Employee Benefit Board, an independent board created by the Metropolitan Charter. Benefits are determined by a formula using the participant's high five-year average salary and years of service. Participants become eligible to retire at the age of 60 once their age plus the completed years of service equal 85 or at age 65 with five years of service. A reduced retirement benefit is available to vested participants prior to the age of 60 or with less than an age plus years of service sum of 85. Reduced benefits are determined by reducing full benefits by 4% per year for each of the first five years by which the retirement date precedes the normal retirement age, and by 8% for each additional year beyond the first five years with a maximum reduction of 60%. Participants are vested after five years of service.

No separate financial reports are issued for the Metro Plan. The Metro Plan financial and required supplemental information is included in The Metropolitan Government of Nashville and Davidson County financial report. That report may be obtained by writing to the Tennessee Department of Finance, Division of Accounts, 1 Public Square, Suite 106, Nashville, TN 37201 or can be accessed at [www.nashville.org/finance/financial\\_reports.asp](http://www.nashville.org/finance/financial_reports.asp).

FUNDING POLICY - The Metro Plan requires no participant contribution. The employer contribution is established at an actuarially determined rate. The employer rate for the year ended June 30, 2010, was 13.012% of annual covered payroll.

The School's contributions for both teachers and non-teachers are not refundable to either the School or employee. The School's expense, related to both plans for the years ended June 30, 2010, 2009 and 2008, totaled \$95,514, \$91,326 and \$49,710, respectively.

## **SUPPLEMENTARY INFORMATION**

**KIPP EAST NASHVILLE PREPARATORY**  
**DBA KIPP ACADEMY NASHVILLE**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**

**June 30, 2010**

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	<b>KIPP to College Fund</b>	<b>KIPP Alumni Scholarship Fund</b>	<b>Restricted Contribution Fund</b>	<b>Other Nonmajor Governmental Funds</b>	<b>Total Nonmajor Governmental Funds</b>
<b>ASSETS</b>					
Cash and cash equivalents	\$ -	\$ 45,240	\$ 1,185	\$ -	\$ 46,425
Accounts receivable	<u>13,214</u>	<u>-</u>	<u>-</u>	<u>13,715</u>	<u>26,929</u>
	<u>\$ 13,214</u>	<u>\$ 45,240</u>	<u>\$ 1,185</u>	<u>\$ 13,715</u>	<u>\$ 73,354</u>
<b>FUND BALANCES</b>					
Restricted	\$ 13,214	\$ 45,240	\$ 1,185	\$ -	\$ 59,639
Assigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,715</u>	<u>13,715</u>
Total fund balances	<u>\$ 13,214</u>	<u>\$ 45,240</u>	<u>\$ 1,185</u>	<u>\$ 13,715</u>	<u>\$ 73,354</u>

**KIPP EAST NASHVILLE PREPARATORY**  
**DBA KIPP ACADEMY NASHVILLE**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**

**NONMAJOR GOVERNMENTAL FUNDS**

**Year Ended June 30, 2010**

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	<b>KIPP to College Fund</b>	<b>KIPP Alumni Scholarship Fund</b>	<b>Restricted Contribution Fund</b>	<b>Other Nonmajor Governmental Funds</b>	<b>Total Nonmajor Governmental Funds</b>
<b>REVENUES</b>					
Contributions	\$ -	\$ 17,354	\$ 28,000	\$ -	\$ 45,354
District funding	-	-	-	57,611	57,611
Federal subrecipient grant	58,874	-	-	161,165	220,039
Interest	-	203	-	-	203
Other income	<u>-</u>	<u>(4,342)</u>	<u>-</u>	<u>-</u>	<u>(4,342)</u>
Total revenues	<u>58,874</u>	<u>13,215</u>	<u>28,000</u>	<u>218,776</u>	<u>318,865</u>
<b>EXPENDITURES</b>					
Instructional	-	-	2,549	5,062	7,611
Office expense	-	-	1,000	-	1,000
Other expenses	-	-	-	4,249	4,249
Salaries, wages and benefits	45,660	-	26,816	185,537	258,013
Staff development	-	-	-	10,425	10,425
Capital outlays	<u>-</u>	<u>-</u>	<u>10,049</u>	<u>-</u>	<u>10,049</u>
Total expenditures	<u>45,660</u>	<u>-</u>	<u>40,414</u>	<u>205,273</u>	<u>291,347</u>
<b>NET CHANGE IN FUND BALANCES</b>	13,214	13,215	(12,414)	13,503	27,518
<b>FUND BALANCES - beginning of year</b>	<u>-</u>	<u>32,025</u>	<u>13,599</u>	<u>212</u>	<u>45,836</u>
<b>FUND BALANCES - end of year</b>	<u>\$ 13,214</u>	<u>\$ 45,240</u>	<u>\$ 1,185</u>	<u>\$ 13,715</u>	<u>\$ 73,354</u>

**KIPP EAST NASHVILLE PREPARATORY**  
**DBA KIPP ACADEMY NASHVILLE**  
**SCHEDULE OF EXPENDITURES OF FEDERAL FINANCIAL ASSISTANCE**  
**Year Ended June 30, 2010**

<b>Federal Grantor/ Program Title/ Pass-through Grantor</b>	<b>CFDA #</b>	<b>Contract Number</b>	<b>Balance June 30, 2009</b>	<b>Receipts</b>	<b>Expenditures</b>	<b>Balance June 30, 2010</b>
<b>FEDERAL FINANCIAL ASSISTANCE</b>						
Department of Education/Fund for the Improvement of Education Grant/through KIPP Foundation	84.215K	U215K080342	\$ (11,374)	\$ 45,627	\$ 47,500	\$ (13,247)
Department of Education/Title 1 Part A: Improving Basic Programs Operated by LEAs/ through Metropolitan Nashville Public Schools	84.010		-	92,143	98,846	(6,703)
Department of Education/Title 1 ARRA: Improving Basic Programs Operated by LEAs/ through Metropolitan Nashville Public Schools	84.010		<u>-</u>	<u>51,057</u>	<u>58,070</u>	<u>(7,013)</u>
<b>TOTAL FEDERAL FINANCIAL ASSISTANCE</b>			<u>\$ (11,374)</u>	<u>\$ 188,827</u>	<u>\$ 204,416</u>	<u>\$ (26,963)</u>

**NOTE 1 - BASIS OF PRESENTATION**

The Schedule of Expenditures of Federal Financial Assistance includes the federal grant activity of the KIPP East Nashville Preparatory dba KIPP Academy Nashville and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-profit Organizations*, and the State of Tennessee Department of Audit, *Audit Manual*. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

## **INTERNAL CONTROL AND COMPLIANCE**

**REPORT OF INDEPENDENT ACCOUNTANTS 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 Directors  
KIPP East Nashville Preparatory  
dba KIPP Academy Nashville  
Nashville, Tennessee

We have audited the financial statements of KIPP East Nashville Preparatory dba KIPP Academy Nashville as of and for the year ended June 30, 2010, and have issued our report thereon dated December 31, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statement 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses identified as item 2010-01 that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

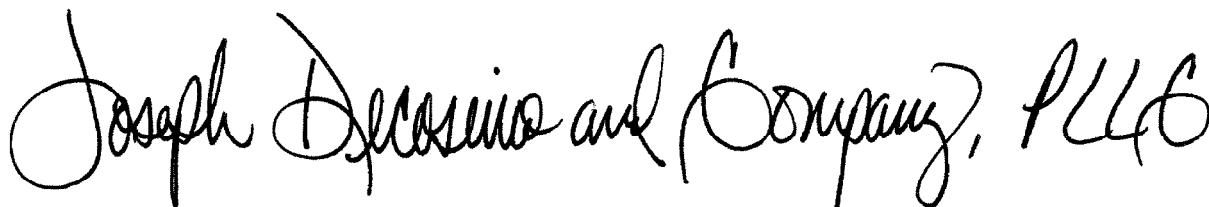
**Compliance and Other Matters**

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*.

We noted certain matters that we reported to management of the School in a separate report dated December 31, 2010.

The School's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the School's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information of the Board of Directors, management, the Metropolitan Nashville Public School Board, the Commissioner of Education and the State of Tennessee and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Joseph DeCesario and Company, PLLC". The signature is written in a cursive, flowing style.

Nashville, Tennessee  
December 31, 2010

**KIPP EAST NASHVILLE PREPARATORY**  
**DBA KIPP ACADEMY NASHVILLE**  
**SCHEDULE OF FINDINGS AND RESPONSES**

**Year Ended June 30, 2010**

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2010-01 - Segregation of Duties

Condition and Criteria: The School does not have segregation of duties over multiple areas of the financial process. The School has implemented policies and procedures that help to minimize the risk associated with a lack of segregation of duties. The School also uses a third-party accounting services firm to assist in the accounting function. The use of the firm allows some tasks to be segregated, further minimizing the risk.

Effect: Lack of segregation of duties results in a risk of misappropriation of assets and errors. The School has taken steps to lessen the risk, but has not eliminated the lack of segregation of duties.

Cause: The size of the School limits its ability to have complete segregation of duties.

Auditor's Recommendations: We recommend that the School continue to review current procedures and when able, establish proper segregation of duties.

School's Response: As a small entity with a small number of support personnel, segregation of duties is difficult. Having complete segregation of duties would not be a practical or efficient use of the School's limited resources. The School realizes this and will continue to enforce policies and procedures in place that limit the risks associated with a lack of segregation of duties.

2010-02 - Improper Costs Recorded

Condition and Criteria: The School received invoices for services and items received by other KIPP schools and recorded the invoices in the School's financial system. The School should maintain policies and procedures related to purchases which ensure that all purchases are received and invoices are only entered in the accounting system for services and items that have been ordered and received by the School.

Effect: Improper costs are recorded, possibly resulting in improper use of the School's resources.

Cause: Invoices received were not properly verified by accounting personnel prior to recording.

Auditor's Recommendations: We recommend that the School put additional verification procedures in place to ensure that all invoices relate to items purchased by the School prior to entering invoices in the accounting system.

School's Response: Procedures have been implemented to verify invoices against purchases received. All invoices are now verified prior to being recorded into the accounting system.

**KIPP EAST NASHVILLE PREPARATORY**  
**DBA KIPP ACADEMY NASHVILLE**  
**SCHEDULE OF PRIOR YEAR FINDINGS**

**Year Ended June 30, 2010**

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2009-01 - Segregation of Duties

Condition and Criteria: The School does not have segregation of duties over multiple areas of the financial process. The School has implemented policies and procedures that help to minimize the risk associated with a lack of segregation of duties. The School also uses a third-party accounting services firm to assist in the accounting function. The use of the firm allows some tasks to be segregated, further minimizing the risk.

Auditor's Recommendations: We recommended that the School continue to review current procedures and when able, establish proper segregation of duties.

Current Status: Ongoing Corrections and Repeated as Finding 2010-01: As a small entity with a small number of support personnel, segregation of duties is difficult. The School realizes this and continues to improve policies and procedures to minimize the risks associated with a lack of segregation of duties.

2009-02 - Accounting for Passthrough Grant Funds

Condition and Criteria: The School did not account for passthrough grant funds from MNPS. All purchase orders were made by MNPS on behalf of the School. The School did not account for the purchases in its financial records or track the purchases during the year.

Auditor's Recommendations: We recommended that the School inform its third-party accounting provider any time a grant is approved or received for guidance on what accounting steps need to be conducted. We also recommended that the School keep in constant communication with any organization that is processing grant funds on the School's behalf to ensure that all funds are utilized.

Current Status: Corrected. The School accounted for all passthrough grant funds.