

**KIPP NASHVILLE
COLLEGIATE HIGH SCHOOL**

**AUDITED FINANCIAL STATEMENTS
AND OTHER INFORMATION**

JUNE 30, 2014

KIPP NASHVILLE COLLEGIATE HIGH SCHOOL

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Independent Auditor's Report

To the Board of Directors
KIPP Nashville
Nashville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of KIPP Nashville Collegiate High School (the "School"), as of June 30, 2014 and for the period from April 11, 2014 (inception) through June 30, 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



To the Board of Directors
KIPP Nashville

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of KIPP Nashville Collegiate High School as of June 30, 2014, and the respective changes in financial position for the period April 11, 2014 (inception) through June 30, 2014, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 - 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2014, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Crosslin & Associates, P.C.

Nashville, Tennessee
November 25, 2014

KIPP NASHVILLE COLLEGIATE HIGH SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of KIPP Nashville Collegiate High School's annual financial performance provides an overview of the School's financial activities for the period from inception, April 11, 2014, which is the date of the charter agreement with the Metropolitan Nashville Public Schools, through June 30, 2014. This section should be read in conjunction with the financial statements, which follow this section. The School will operate for the first time in fiscal year 2015, therefore, the period covered by these financial statements is the start-up period.

FINANCIAL HIGHLIGHTS

The School's governmental activities assets totaled \$1,440,413, while total revenues for the School were \$262,468. Revenues were from start-up period contributions. The School's change in net position was \$262,468 in the start-up period. Most of the School's activities are in preparation for the School's opening in fiscal year 2015. Accordingly, contributions received and receivable relating to the future period have been recorded as advanced contributions and grants. These advanced contributions and grants total \$1,160,537 at June 30, 2014.

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

In general, users of these financial statements want to know if the School is in a better or worse financial position as a result of the period's activities. The Statement of Net Position 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 period's revenue and expenses are taken into consideration regardless of when cash is received or paid. The statements start on page 8.

The Statement of Net Position reports the School's net position (total assets plus deferred outflow of resources less total liabilities less deferred inflows of resources). Private sector entities would report retained earnings. The School's net position balance at year-end represents available resources for future growth. The Statement of Activities reports the change in net position as a result of activity during the period. 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 period. 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 NASHVILLE COLLEGIATE HIGH SCHOOL
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) - Continued

The School’s fund financial statements, the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances, begin on page 10. They provide detailed information about the School’s most significant funds, not the School as a whole. Funds are established by the School as required to help manage money for particular purposes and compliance with various donor and 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 June 30 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 Position 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 11 and 13.

SCHOOL-WIDE FINANCIAL ANALYSIS

The School’s assets exceeded the School’s liabilities at the close of the period, resulting in net position of \$262,468. The School did not have any deferred inflows or outflows of resources at June 30, 2014. The School’s net position includes \$112,052 of cash, all of which is subject to external restrictions that limit how the amounts may be used or is to be used for the upcoming school year.

As of June 30, 2014, the School had invested a total of \$207,905 in capital assets. This investment includes instructional and support furniture, instructional computers for teachers and students and other technology and instructional equipment. The School expects significant additional property and equipment investments in the 2014-2015 school year, as the School begins operation. Significant capital needs will continue over the next several years as grade levels are added and enrollment maximizes. With the additional students there will be continued requirements for furniture, computers and equipment. The School facility is currently large enough to accommodate student enrollment for all grades, nine through twelve. For the next year, the School will operate at the newly renovated and modernized Highland Heights Facility. Additional information on property and equipment is located in the notes to the financial statements.

The School will operate under a lease agreement for its educational space with the Metropolitan Nashville Public Schools. The current lease term ends June 30, 2024. The School has no debt as of the end of the fiscal year.

KIPP NASHVILLE COLLEGIATE HIGH SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - Continued

A schedule of the School's net position as of June 30, 2014, is as follows:

	2014
Current assets	\$ 355,438
Other assets – long-term contributions	877,070
Capital assets	207,905
Total assets	1,440,413
Current liabilities	300,875
Long-term liabilities	877,070
Total liabilities	1,177,945
Net position:	
Invested in capital assets	207,905
Unrestricted	54,563
Total net position	\$ 262,468

The School's total net position increased \$262,468 during the period April 11, 2014 (inception) through June 30, 2014. The increase in the School's net position indicates that the School had more incoming revenues than outgoing expenses during the year.

Contribution revenue for the period totaled \$262,468. A portion of the contributions was used to make purchase of capital assets as well as expenditures for prepaid items for the upcoming school year. The remaining contributions received as well as future contributions have been recorded as advanced contributions and grants as such amounts relate to restricted use and/or future periods when the School is operational.

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

The School's funds, as presented on the Balance Sheet on page 10, report a combined fund balance of \$54,563. The School's total funds are in the General Purpose School Fund, which is the chief operating fund of the School. The School did not have any other funds at June 30, 2014.

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 period ended June 30, 2014, the differences consist of capital assets, which are not reported in the School's funds.

KIPP NASHVILLE COLLEGIATE HIGH SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - Continued

SCHOOL ACTIVITIES

KIPP Nashville opened its first school in July 2005 as a middle school (5th through 8th grades), with a second middle school opened in July 2013. KIPP Nashville Collegiate High School is the third school in the network. KIPP Nashville has developed a highly successful program to serve students residing in Nashville's lowest income and most educationally underserved communities. Our mission is to cultivate both the academic skills and character our students need to succeed in rigorous high schools and colleges, and to become responsible and productive citizens in the world beyond.

KIPP Nashville's success is based on the highly acclaimed and nationally recognized Knowledge is Power Program education model customized for our student body. KIPP was started in 1994 by two Teach for America alumni, Mike Feinberg and Dave Levin. Feinberg and Levin raised three primary questions about education based on their shared experiences as middle school teachers in one of many low income communities in Houston, Texas: 1) Why weren't their students pursuing academics like other students from more affluent communities? 2) Why weren't they being held to higher expectations by teachers and school administrators? 3) What was the rationale to support a seven-hour school day and a 180-day school year, especially for students who are failing academically?

Feinberg and Levin developed the KIPP education model which has proven for more than nineteen years that the time-honored values of hard work and no excuses, discipline, and a relentless focus on results combined with more time in school is not only the right formula for overall student academic success, but is most especially needed to engage students who are at-risk and failing academically.

Today, there are 162 KIPP schools serving more than 58,000 students across the United States in urban and rural low-income communities located in 20 states and the District of Columbia. KIPP believes that investments in human capital development are required to bring about widespread and lasting change within our country's education system, and are paramount to ensuring that all KIPP students receive a quality, college-preparatory education. All KIPP schools are founded and led by talented, passionate and effective educators who complete rigorous, in-depth KIPP training programs. KIPP School Leaders in turn effectively attract, develop, and retain talented teachers and give them the tools, support and ongoing professional development to grow as professionals and close achievement gaps among students.

Current census data confirms KIPP Nashville has a significantly higher percentage of economically disadvantaged families than most area public schools. Ninety percent of KIPP Nashville students qualify for federal free or reduced price meals; all are zoned to under-performing neighborhood middle schools with suspension rates as high as 44%, and high schools where average student ACT scores are too low for college eligibility.

KIPP NASHVILLE COLLEGIATE HIGH SCHOOL
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) - Continued

Yet in spite of these seemingly insurmountable odds coupled with the daily, harsh realities faced by most youth living in low-income, high-risk neighborhoods, KIPP Nashville students emulate the academic success of their national cohorts by making significant progress and demonstrating academic excellence. KIPP Nashville students must – and do – make significant academic growth each year, and consistently outperform city and state averages on standardized tests. By the time KIPP Nashville students enter high school, a large majority are at grade level and prepared for continued academic success.

KIPP Nashville has a proven history of strong academics amount its peer group in the Metropolitan Nashville Public Schools and in the State of Tennessee. Management is looking forward to continue this tradition with KIPP Nashville Collegiate High School.

STUDENT ENROLLMENT FACTORS AND NEXT YEAR’S BUDGET

The School will open with the ninth grade class for the 2014-2015 school year. A grade will be added each year through 2017-2018. Fiscal year 2015 enrollment is projected to be just over 100 students.

The School anticipates that total Basic Education Program (BEP) funding will be the primary source of revenue along with contributions of non-government funds. KIPP believes a continued focus on cultivating the existing donor base, the successful execution of the annual community fundraising breakfast and a larger Board of Directors committed to hitting fundraising targets will help the School reach this goal. These non-government resources are an important funding source to fill the current funding gap of KIPP Nashville, and to fuel the strategic growth plans for KIPP Nashville, including the School.

For fiscal year 2015, in addition to serving KIPP’s current student population of 440 students, KIPP plans to invest in the organization’s long-term growth plan for opening new KIPP schools in Nashville. These investments will include hiring additional staff, increasing professional development, and making general and administrative expenditures 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, grant funding authorities and agencies tasked with oversight of Metropolitan Nashville Public Schools with a general overview of the organization’s finances and to demonstrate the School’s accountability for the money it receives. For questions about this report or additional financial information, contact the organization’s Director of Finance, Anika Baltimore, at 3410 Knight Drive, Nashville, TN 37207, by telephone at (615) 226-4484 or email abaltimore@KIPPnashville.org.

KIPP NASHVILLE COLLEGIATE HIGH SCHOOL
STATEMENT OF NET POSITION
JUNE 30, 2014

	<u>Governmental Activities</u>
ASSETS	
Cash	\$ 112,052
Receivables	78,448
Prepaid expenses and other current assets	54,563
Contributions receivable	987,445
Construction in progress	<u>207,905</u>
Total assets	<u>1,440,413</u>
 LIABILITIES	
Accounts payable	14,262
Accrued expenses	3,146
Advance contributions and grants	<u>1,160,537</u>
Total liabilities	<u>1,177,945</u>
 NET POSITION	
Net investment in capital assets	207,905
Unrestricted	<u>54,563</u>
Total net position	<u>\$ 262,468</u>

See accompanying notes to financial statements.

KIPP NASHVILLE COLLEGIATE HIGH SCHOOL
STATEMENT OF ACTIVITIES
PERIOD FROM APRIL 11, 2014 (INCEPTION) THROUGH JUNE 30, 2014

<u>GOVERNMENTAL ACTIVITIES:</u>	<u>Function Administration</u>
EXPENSES	-
GENERAL REVENUES	
Contributions	<u>262,468</u>
CHANGE IN NET POSITION	262,468
NET POSITION, April 11, 2014	<u>-</u>
NET POSITION, June 30, 2014	<u>\$ 262,468</u>

See accompanying notes to financial statements.

KIPP NASHVILLE COLLEGIATE HIGH SCHOOL
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

	General Purpose School Fund
ASSETS	
Cash and cash equivalents	\$ 112,052
Receivables	188,823
Other current assets	54,563
Total assets	\$ 355,438
 LIABILITIES	
Accounts payable	\$ 14,262
Accrued expenditures	3,146
Advance contributions and grants	283,467
Total liabilities	300,875
 FUND BALANCES	
Nonspendable	54,563
Unassigned	-
Total fund balances	54,563
Total liabilities and fund balances	\$ 355,438

See accompanying notes to financial statements.

KIPP NASHVILLE COLLEGIATE HIGH SCHOOL
BALANCE SHEET
GOVERNMENTAL FUNDS - CONTINUED
JUNE 30, 2014

RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO NET POSITION
OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET POSITION:

Total governmental fund balances above	\$ 54,563
Capital assets not reported above	<u>207,905</u>
Net position of governmental activities in the statement of net position	<u>\$ 262,468</u>

See accompanying notes to financial statements.

KIPP NASHVILLE COLLEGIATE HIGH SCHOOL
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
PERIOD FROM APRIL 11, 2014 (INCEPTION) THROUGH JUNE 30, 2014

	General Purpose School Fund
REVENUES	
Contributions	\$ 262,468
Total revenues	262,468
EXPENDITURES	
Capital outlay	207,905
Total expenditures	207,905
NET CHANGE IN FUND BALANCES	54,563
FUND BALANCES, April 11, 2014	-
FUND BALANCES, June 30, 2014	\$ 54,563

See accompanying notes to financial statements.

KIPP NASHVILLE COLLEGIATE HIGH SCHOOL
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - CONTINUED
GOVERNMENTAL FUNDS
PERIOD FROM APRIL 11, 2014 (INCEPTION) THROUGH JUNE 30, 2014

RECONCILIATION OF NET CHANGE IN FUND BALANCES TO CHANGE IN NET POSITION
OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES:

Net change in fund balances as reported in the governmental funds statements	\$ 54,563
Amounts reported as expenditures in the governmental funds not included as expenses in the school-wide statements:	
Capital outlays	<u>207,905</u>
Change in net position of governmental activities	<u>\$ 262,468</u>

See accompanying notes to financial statements.

KIPP NASHVILLE COLLEGIATE HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD APRIL 11, 2014 (INCEPTION) THROUGH JUNE 30, 2014

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

KIPP Nashville was incorporated October 22, 2003, as a Tennessee nonprofit corporation to operate charter schools in Nashville. Pursuant to Section 6(b)(1)(A) of the Tennessee Public Charter School Act of 2002 (the Act), KIPP Nashville Collegiate High School (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 Board of Public Education of Nashville and Davidson County on April 11, 2014, to operate a grade 9-12 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. At June 30, 2014 the School had not opened. The School will begin classes in July 2014 with a ninth grade class and plan to add an additional grade each year culminating with the addition of a twelfth grade in the 2017-2018 fiscal year.

KIPP Nashville operates KIPP Academy Nashville, KIPP Nashville College Prep, and KIPP Nashville Collegiate High School. The financial statements and footnotes in this report reflect the operations of KIPP Nashville Collegiate High School as of June 30, 2014.

Basic Financial Statements

School-wide financial statements

The school-wide financial statements focus on the sustainability of the School as an entity and the change in the School's net position resulting from the current year's activities. In the school-wide statement of net position, amounts are reported on a full accrual, economic resources basis, which recognizes all long-term assets and receivables as well as any long-term debt and obligations. The statement of net position presents the financial condition of the School at year-end.

When applicable, the School's net position is reported in three categories - net investment in capital assets; restricted net position; and unrestricted net position. When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first, and then unrestricted resources as they are needed. The School does not allocate indirect costs between functions.

KIPP NASHVILLE COLLEGIATE HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD APRIL 11, 2014 (INCEPTION) THROUGH JUNE 30, 2014

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The school-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. The statement of activities reduces gross expenses by related function revenues, including operating grants and contributions and capital grants and contributions. Program revenues must be directly associated with the function. The net costs by function are normally covered by general revenue.

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, deferred outflows or inflows of resources (when applicable), fund balance, revenues and expenditures.

The emphasis in fund financial statements is on the major funds. Nonmajor funds by category are summarized in a single column. Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis for State and Local Governments*, sets forth minimum criteria for the determination of major funds. The School reports the following major governmental fund, as of June 30, 2014:

The General Purpose School Fund is the School's operating fund. It accounts for all financial resources of the School, except those required to be accounted for in another fund. The School did not have any such requirements at June 30, 2014.

The focus of the governmental funds 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.

KIPP NASHVILLE COLLEGIATE HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD APRIL 11, 2014 (INCEPTION) THROUGH JUNE 30, 2014

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 Purpose School Fund or classified as nonspendable, restricted or committed. In addition, General Purpose School 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 chief finance officer and personnel under the supervision of the chief finance officer tasked with financial recording responsibilities.

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

Basis of Accounting

The School's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the GASB.

The School is considered a special purpose governmental entity 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 school-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 school-wide and fund financial statements.

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

KIPP NASHVILLE COLLEGIATE HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD APRIL 11, 2014 (INCEPTION) THROUGH JUNE 30, 2014

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The governmental funds financial statements are presented on the modified accrual basis of accounting. Revenues under the modified accrual basis are recognized when measurable and available and expenditures are recognized when the related liability is incurred. "Available" means collectible within the current period or within 60 days after the end of the year.

Since the governmental funds financial statements are presented on a different basis than the school-wide financial statements, reconciliation is provided immediately following each fund statement. These reconciliations briefly explain the adjustments necessary to transform the fund financial statements into the school-wide financial statements.

Allocations

The School is a part of the KIPP Nashville network of schools. KIPP Nashville maintains a regional office for support of the schools. Certain activities, including fundraising and administration are conducted centrally by the regional office. Accordingly, revenues, expenses, assets and liabilities associated with the central activities are allocated to the schools for financial reporting purposes. All financial transactions and balances directly related to a school are recorded directly by that school. Financial transactions and balances of the regional office are allocated to the schools using the following methodology:

- Cash transfers are made to fund any unrestricted operating deficits and growth needs
- Revenues from fundraising and grant activities are allocated based primarily on enrollment
- Expenses of shared services and administration are allocated based primarily on enrollment
- Capital assets of shared services are allocated primarily to KIPP Academy Nashville.

Cash and Cash Equivalents

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.

Receivables

Receivables represent amounts due from contributors, grants or other funding which have been approved but not received. All receivables are reported at estimated collectible amounts. Receivables that will not be collected within the available period have been reported as unavailable revenues in the governmental funds financial statements.

KIPP NASHVILLE COLLEGIATE HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD APRIL 11, 2014 (INCEPTION) THROUGH JUNE 30, 2014

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Capital Assets and Work In Progress

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.

Work in progress represents long term assets not yet placed into service. When a project is completed and placed into service, the work in progress is removed and is recorded as a depreciable asset.

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the respective governmental fund upon acquisition.

Income Taxes

The School is a not-for-profit school that is exempt from federal income taxes under the Internal Revenue Code, classified by the Internal Revenue Service as other than a private foundation and is similarly exempt from state income taxes. The School accounts for the effect of any uncertain tax positions based on a more likely than not threshold to the recognition of the tax positions being sustained based on the technical merits of the position under examination by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a cumulative probability assessment that aggregates the estimated tax liability for all uncertain tax positions. Tax positions for the School include, but are not limited to, the tax-exempt status and determination of whether income is subject to unrelated business income tax; however, the School has determined that such tax positions do not result in an uncertainty requiring recognition.

KIPP NASHVILLE COLLEGIATE HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD APRIL 11, 2014 (INCEPTION) THROUGH JUNE 30, 2014

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Use of Estimates

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.

Fair Value of Financial Instruments

The carrying value of cash and cash equivalents, receivables, accounts payable and accrued liabilities approximate fair value because of the short maturity of these instruments.

B. DEPOSITS AND INVESTMENTS

The School does not have formal deposit policies that address its exposure to custodial credit risk. The School regularly maintains deposits in excess of FDIC coverage. The School's financial institution is a member of the Tennessee Bank Collateral Pool, which helps the School to mitigate custodial credit risk.

KIPP Nashville operates a pooled-cash management program for the benefit of its schools, including the School. Cash balances reported within the accompanying financial statements represent the School's portion of the pooled-cash program, resulting from its operation. Also included in KIPP Academy Nashville's cash balances are amounts received from central fundraising activities which have not been transferred or utilized by other schools. KIPP Academy Nashville, as the first school in KIPP Nashville's network, holds these funds for operational needs and future development.

KIPP Nashville management under the direction of the Board of Directors, and within limits of grant agreements or donor restrictions, may make transfers among the schools as necessary to fund operations and growth.

KIPP NASHVILLE COLLEGIATE HIGH SCHOOL
 NOTES TO FINANCIAL STATEMENTS
 FOR THE PERIOD APRIL 11, 2014 (INCEPTION) THROUGH JUNE 30, 2014

C. WORK IN PROGRESS

At June 30, 2014, the School had \$207,905 in work in progress relating to various technology assets, instructional equipment, office equipment and classroom furniture. These assets were not placed in service at June 30, 2014; accordingly no depreciation expense was recorded during the period.

There is no significant estimate to complete any projects in process at June 30, 2014.

D. LINE-OF-CREDIT

KIPP Nashville has a \$1,050,000 line-of-credit agreement with a financial institution. The line-of-credit bears interest at a variable rate of the financial institution's index rate and expires in March 2015. As of June 30, 2014, no amounts were outstanding under the agreement.

E. LEASE ARRANGEMENTS

The School's facilities for fiscal year 2015 operations will be provided under a lease arrangement with the Metropolitan Nashville Board of Public Education and Metropolitan Government of Nashville and Davidson County. The lease is for a period of 10 years, ending on June 30, 2024. The lease includes building operations and interior and exterior support services. The lease arrangement requires the School to pay rent in monthly installments. The lease also requires the School to pay for certain operating services. Under the terms of the lease, minimum required lease payments are as follows:

<u>Year Ending June 30,</u>	
2015	\$ 328,436
2016	440,225
2017	494,311
2018	509,140
2019	524,415
2020 - 2024	<u>2,923,397</u>
	<u>\$5,219,924</u>

Both KIPP Nashville Collegiate High School and KIPP Academy Nashville will occupy the space provided under this lease arrangement. The School will be responsible for its portion of the rental payments based on the square footage it occupies.

KIPP NASHVILLE COLLEGIATE HIGH SCHOOL
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F. RELATED PARTY TRANSACTIONS

KIPP Foundation has the authority to appoint a member to the Board of Directors. This member is empowered to veto 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. The agreement is for automatically renewable one-year terms. Total license fees incurred for the year ended June 30, 2014, were \$32,641.

During the period ended June 30, 2014, KIPP Nashville operated a regional office for the management of KIPP Academy Nashville and KIPP Nashville College Preparatory Middle School and was in the process of developing the School, to be opened in fiscal year 2015. Certain funds are maintained by KIPP Academy Nashville and are transferred as needed to the other schools.

All assets, liabilities, net assets, revenues and expenses recorded on the regional office general ledger have been allocated to the various schools in operation and those in process of being opened in fiscal year 2015. Amounts allocated to KIPP Nashville Collegiate High School are included therein.

G. COMMITMENTS, CONTINGENCIES AND RISK MANAGEMENT

The School may become subject to various claims and legal actions, which arise in the ordinary course of business. In the opinion of management, no such claims existed that would have a material, adverse effect on the school's financial position or results of operations, as of the date of these financials.

The School is exposed to various risk of loss relating to torts, theft of, damage to, and destruction of assets; errors or commissions; illness or injuries to employees; and natural disasters. The School carries insurance for certain risks of loss.

OTHER INFORMATION



Independent Auditor's 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*

To the Board of Directors
KIPP Nashville
Nashville, Tennessee

We have audited, in accordance with the 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, the financial statements of the governmental activities and the major fund of KIPP Nashville Collegiate High School (the "School") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated November 25, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



To the Board of Directors
KIPP Nashville

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Crosslin & Associates, P.C.

Nashville, Tennessee
November 25, 2014